MTR

Connecting The Future

Annual Report 2022

Stock code: 66

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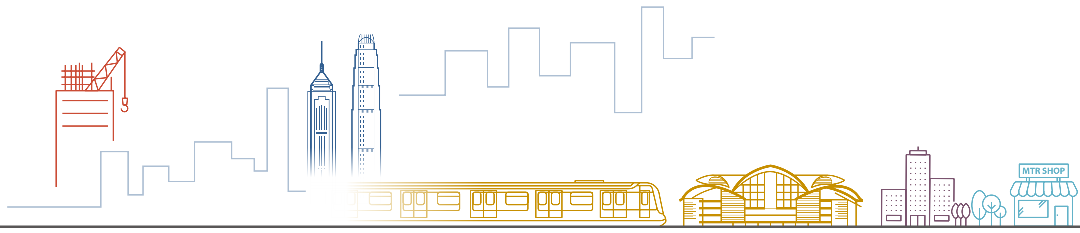
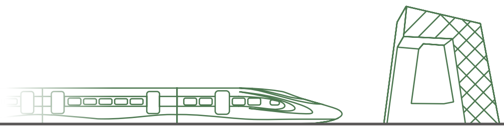


Our Vision
We aim to be an internationally-recognised company that connects and grows communities with caring, innovative and sustainable services.

Our Values
- Excellent Service
- Value Creation
- Mutual Respect
- Enterprising Spirit

Our Purpose
Keep Cities Moving

Our Cultural Focus Area
- Participative Communication
- Collaboration
- Effectiveness & Innovation
- Agility to Change



OVERVIEW

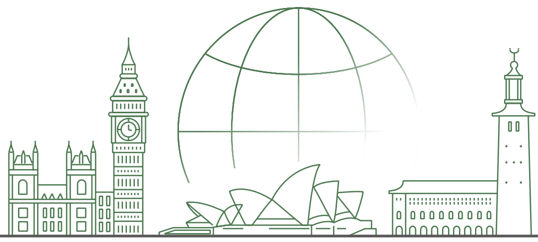
BUSINESS REVIEW AND ANALYSIS

MTR's mission is to keep cities moving by delivering safe, efficient, environmentally friendly and accessible rail transport. As we move cautiously but confidently into a post-pandemic operating environment, MTR must continue to meet its growing passenger demand with world-class service while enhancing the connectivity of its core market in Hong Kong and further expanding its networks and services in the Greater Bay Area, Mainland China and overseas. By doing so, we can contribute to a wider infrastructural platform that fosters economic growth and opportunities for the places we serve.

Our Annual Report 2022, "Connecting the Future", presents our numerous efforts to fulfil these aims during a difficult year. It details MTR's activities and accomplishments as well as its strategic plans to connect communities across Hong Kong and around the world with the railway networks of tomorrow. We also invite our valued shareholders and stakeholders to review our Sustainability Report 2022, which highlights the Company's progress according to key environmental, social and governance objectives that guide our organisation and its business strategies.

Annual Report 2022

Sustainability Report 2022



CORPORATE GOVERNANCE

FINANCIALS AND OTHER INFORMATION

HIGHLIGHTS

HONG KONG BUSINESSES

- **1.5+ billion**
  Total Patronage
- **99.9%**
  Passenger Journeys On-time
- **East Rail Line Cross-harbour Extension**
  Commenced Service
- Awarded
  Pak Shing Kok Ventilation Building and **Tung Chung Traction Substation**
  Property Development Projects

Hong Kong Core

Attain Full Potential of Hong Kong Core Business and Advance our Social Objectives

MAINLAND CHINA AND INTERNATIONAL BUSINESSES

- **Central Operating Section of the Elizabeth line in London**
  Commenced Service
- **Southern Section of Beijing Metro Line 16**
  Commenced Service

New Growth Engine

Invest in New Technologies and Mobility Services to Reinforce our Core for Long-term Growth

GROWTH AND OUTLOOK

3 STRATEGIC PILLARS

Mainland China and International Business

Expand into New Hubs and New Products across Mainland China and International Business, Maintaining a Steady Growth

- **Oyster Bay Property Development Project**
  Completed Land Exchange Documents
- **Oyster Bay Station** and **Tung Chung Line Extension**
  Entered into Project Agreements
- Schemes of **Tuen Mun South Extension** and **Kwu Tung Station** were Authorised under the Railways Ordinance
- **14 Residential Property Projects** under Development
- **The Wai** and **THE SOUTHSIDE** Shopping Malls Target to Open in 2023

STAKEHOLDER ENGAGEMENT

STAKEHOLDER GROUP

2022 Engagement Initiatives and Achievements

Customers

- Provided on-going fare concessions to reduce economic hardship during the pandemic and promote accessibility and inclusivity
- Launched smart mobility initiatives to tackle pain points in the customer journey, including the Train Car Loading Indicator for the Tuen Ma and East Rail lines and Cross-Harbour Easy at Admiralty Station
- Launched the MTR • Care mobile app to facilitate seamless travel for passengers with special needs
- Provided a more seamless experience enabling passengers to enjoy a wide variety of goods and services in station shops and connecting shopping malls
- Conducted personalisation and engagement activities as well as digital marketing campaigns on the MTR Mobile app
- Launched MTR Web3 Discord as a new channel to engage customers

Investors

- Conducted approximately 100 meetings with investors to provide information on our various businesses
- Issued regular updates of key figures on our website and in financial reports
- Hosted the Annual General Meeting to provide an opportunity for shareholders to communicate face to face with Directors about the Company's performance and operations

Government and Regulators

- Worked closely with Government on railway projects under Railway Development Strategy 2014 and supported Government's Northern Metropolis Development Strategy
- Supported the community work of Legislative Council and District Councils by arranging various activities and providing sponsorships
- Welcomed the participation of Government officials and departments in various events, including the 25th Anniversary of the Establishment of the HKSAR, test drills and opening ceremonies
- Supported Government on the reopening of boundary control points at Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations with gradual resumption of train services in early 2023

Communities

- Organised a range of care initiatives during COVID-19, including free tickets for healthcare workers, rental concessions for tenants, food and daily necessities for social enterprises and charitable organisations to support those in need, and the "MTR Points" Donation Programme for users to donate their MTR Points to charitable projects
- Held career and life planning events for students (e.g., "'Train' for Life's Journeys" programme)
- Provided sponsorships and volunteer services to NGOs and ethnic minorities
- Helped NGOs promote family well-being through play and toy recycling and provided STEM classes for underprivileged families
- Leased a number of station shops to NGOs at nominal rent and provided free advertising space to non-profit organisations

Contractors and Suppliers

- Ensured the health and safety of suppliers by providing support and assistance during the COVID-19 pandemic
- Organised exchange and training sessions regarding environmental, social and governance ("ESG") initiatives and best practices for related supplier categories
- Established a long-term strategy and engagement plans for focus categories and suppliers
- Established a supplier audit scheme, conducted supplier audits and suggested areas for improvement
- Conducted a survey for key suppliers to understand their challenges and potential improvements to be made regarding service support to MTR Corporation
- Provided performance feedback to suppliers via Supplier Management Meetings or the Supplier Appraisal System

Employees

- Formalised the Work From Home policy
- Introduced paid adoption leave, extended paid maternity leave to 16 weeks and paid paternity leave to 10 days, and expanded the eligibility of compassionate leave
- Formed task forces for follow-up action planning and implementation based on the results of the Employee Engagement Survey 2021, conducted pulse survey in December 2022
- Maintained a two-tier Staff Consultation Mechanism, comprising a Staff Consultative Council at the corporate level and Joint Consultative Committees at the business unit/ function level
- Granted MTR Grand Awards for Outstanding Contribution, Long Service Awards and Living the MTR Values Awards
- Continued employee wellness initiatives such as the Flexible Benefits Online Platform, Metro Recreation Club and "More Time Reaching Community" staff volunteering scheme

Initiatives for 2023 and Beyond

Fare Concessions
Smart Mobility Initiatives
MTR • Care Mobile App

- Continue to provide on-going fare concessions and other promotions
- Engage various passenger groups to develop smart mobility initiatives throughout the entire MTR network and continue the development of the MTR • Care app
- Continue to optimise our trade mix according to the latest trends and customer preferences
- Leverage advanced data platforms through the enriched MTR Mobile customer profile to enable data-driven personalisation and engagement applications for general passengers and specific customer segments
- Continue to explore the Web3 arena for new and digitalised ways to engage customers

Meetings with Investors
Financial Reports
Annual General Meeting

- Continue to keep investors informed of all key announcements and updates via various channels
- Resume physical meetings and roadshows

RDS 2014
RMR2030+ Study
Community Work

- Continue to support Government's policy of using railways as the backbone of Hong Kong's public transportation system including the development of the three strategic railways recommended under the Strategic Studies on Railways and Major Roads (RMR2030+ Study)
- Acknowledge and engage the proposed Railways Department and new bureaux
- Continue other on-going engagement initiatives

Care Initiatives
Career and Life Planning Events
Sponsorships and Volunteer Services

- Provide updates on our social and environmental engagement strategy in accordance with social and environmental objectives to ensure that MTR programmes suit the needs of different groups in society
- Expand the railway network to connect more communities with safe, environmentally friendly, affordable and accessible mass transit
- Establish several joint collaborations on innovative intelligence with various academic institutes
- Continue other on-going engagement initiatives

Health and Safety
ESG Initiatives
Strengthen Business Relations

- Enhance the current supplier lists to manage our suppliers efficiently and effectively
- Continue to organise exchange and training sessions regarding ESG initiatives and best practices for related supplier categories
- Continue to rationalise the long-term strategy for focus categories and suppliers
- Enhance the supplier audit scheme and extend supplier audits to global MTR suppliers
- Continue to conduct Supplier Management Meetings with key suppliers to strengthen business relations and understand the latest innovations and technologies for workload and process enhancements

Pulse Survey
Two-tier Staff Consultation Mechanism
Employee Wellness Initiatives

- Communicate the results of the pulse survey to staff in February 2023 and review the progress of action plan implementation. Hold the next Employee Engagement Survey in the fourth quarter of 2023
- Continue other on-going engagement initiatives

ESG HIGHLIGHTS

Social Inclusion

- Established Gender Equity Network

- More Time Reaching Community volunteering scheme with 111 volunteering projects organised
- Launched MTR • Care app to serve the elderly and people with special needs
- Donated retired train parts to schools to build a train theme classroom for students with special education needs
- 9% of summer interns were from an ethnic minority background or students with special educational needs
- Launched Global Safety Hackathon and Global Safety and Health Conference to build a stronger safety culture
- "Art in MTR" programme transformed our stations into spaces for art exhibitions and in support of local talent

Advancement & Opportunities

- 10% of students joining "'Train' for Life's Journeys" summer youth programme were from ethnic minority background
- Provided STEM classes for underprivileged families during COVID-19
- Supported various case competitions for youth

Greenhouse Gas Emissions Reduction

- Set science-based carbon reduction targets for the year 2030 for our railway and property businesses in Hong Kong
- Over 25% of F&B tenants at our shopping malls have joined our food waste reduction programme
- Solar photovoltaic systems installed at Hin Keng Station
- Achieved BEAM Plus Provisional Gold accreditation for our planned Tung Chung East and Tung Chung West stations

KEY AWARDS

Hong Kong Transport Services

- **Public Transportation Category Award, Hong Kong Service Awards 2022**
  East Week
- **Public Transportation Service Award, Sing Tao Service Awards 2021**
  Sing Tao Daily
- **Public Transportation Service Award, Elite Awards 2021**
  Ming Pao Weekly
- **UITP Asia-Pacific Special Recognition Award 2021**
  International Association of Public Transport
- **Most Innovative Transport Solutions Global 2022**
  Capital Finance International
- **MTR Mobile**
  - **Five awards received in The Loyalty & Engagement Awards 2022**
  - **Four awards received in Mob-Ex Awards 2022**
    Marketing Interactive Magazine
  - **Excellence in Customer Engagement and Experience, HKMA/ViuTV & Now TV Awards for Marketing Excellence 2022**
    Hong Kong Management Association/ViuTV & Now TV

Environmental, Social and Governance

- **Merit Employee Engagement Award and Special Award for COVID-19 Response, HR Excellence Awards 2021/2022**
  Hong Kong Institute of Human Resource Management
- **15 Years Plus Caring Company Logo**
  Hong Kong Council of Social Service
- **e-Contribution Award and MPF Support Award of the Good MPF Employer Award 2021 – 2022**
  The Mandatory Provident Fund Schemes Authority
- **Greater Bay Area Corporate Sustainability Awards 2022**
  - **Greater Bay Area Corporate Sustainability Award**
  - **Outstanding GBA Corporation – Social Sustainability Award**
  - **Outstanding GBA Corporation – Environmental Sustainability Award**
  - **Outstanding GBA Corporation – Corporate Governance Award**
    Metro Finance
- **Best ESG Reporting Award (Logistics & Transport), 2022 Best Annual Reports Awards**
  Hong Kong Management Association

Hong Kong Property and Other Businesses

- **ELEMENTS**
  - **Excellent Service Award, Hong Kong Service Awards 2022**
    East Week
- **Telford Plaza**
  - **Shopping Mall Award for Warm Service, Hong Kong Service Awards 2022**
    East Week
- **The LOHAS**
  - **Silver Award – Best Use of Real-time Marketing, Markies Awards 2022**
    The Marketing Interactive Magazine
- **Maritime Square**
  - **HKIM Market Leadership Award and HKIM Triple Crown Award Winner, Market Leadership Award 2021**
    Hong Kong Institute of Marketing
- **Two ifc**
  - **LEED Platinum Certification for Operations and Maintenance: Existing Buildings v4.1**
    The U.S. Green Building Council and verified by Green Business Certification INC

Mainland China and International Businesses

- **BJMTR**
  2022 China Best Employers Award Top 100
  Zhaopin.com
- **MTR (SZ)**
  2021/2022 Annual Awards for National Excellent Foreign-Invested Enterprises
  China Association of Enterprises with Foreign Investment and Shenzhen Association of Enterprises with Foreign Investment
- **MTRX**
  Ranked 1st in the Swedish Quality Index 2022 measurement of the most satisfied customers for passenger transport in the category of train companies
  Swedish Quality Index
- **South Western Railway**
  Silver Whistle: London & South East on-time performance, Golden Whistle Award 2022
  Modern Railways and the Institution of Railway Operators

Finance and Investor Relations

- **Bronze Award – General Category, 2022 Best Annual Reports Awards**
  Hong Kong Management Association
- **Four awards received in 2022 International Annual Reports Competition (ARC) Awards**
  MerComm, Inc.
- **Best Public Service Financial Management Team Hong Kong 2022 Award**
  Capital Finance International

KEY FIGURES

	2022 HK$ million	2022 %	2021 HK$ million	2021 %	Favourable/ (Unfavourable) Change %
Total revenue					
Recurrent business revenue					
– Hong Kong transport services					
– Hong Kong transport operations	**13,404**	**28.0**	13,177	27.9	1.7
– Hong Kong station commercial businesses	**3,077**	**6.5**	3,208	6.8	(4.1)
– Total Hong Kong transport services	**16,481**	**34.5**	16,385	34.7	0.6
– Hong Kong property rental and management businesses	**4,779**	**10.0**	5,036	10.7	(5.1)
– Mainland China and international railway, property rental and management subsidiaries	**26,016**	**54.4**	25,045	53.1	3.9
– Other businesses	**363**	**0.7**	383	0.8	(5.2)
	47,639	**99.6**	46,849	99.3	1.7
Property development business revenue					
– Mainland China property development	**173**	**0.4**	353	0.7	(51.0)
Total revenue	**47,812**	**100.0**	47,202	100.0	1.3
Total EBITDA[1]					
Recurrent business EBITDA					
– Hong Kong transport services					
– Hong Kong transport operations	**691**	**3.5**	834	4.3	(17.1)
– Hong Kong station commercial businesses	**2,555**	**13.1**	2,728	14.2	(6.3)
– Total Hong Kong transport services	**3,246**	**16.6**	3,562	18.5	(8.9)
– Hong Kong property rental and management businesses	**3,815**	**19.6**	4,066	21.1	(6.2)
– Mainland China and international railway, property rental and management subsidiaries	**1,265**	**6.5**	890	4.7	42.1
– Other businesses, project studies and business development expenses	**(474)**	**(2.4)**	(499)	(2.6)	5.0
	7,852	**40.3**	8,019	41.7	(2.1)
Property development business EBITDA					
– Hong Kong property development	**11,589**	**59.4**	11,097	57.6	4.4
– Mainland China property development	**59**	**0.3**	129	0.7	(54.3)
	11,648	**59.7**	11,226	58.3	3.8
Total EBITDA	**19,500**	**100.0**	19,245	100.0	1.3
Total EBIT[2]					
Recurrent business EBIT					
EBIT					
– Hong Kong transport services					
– Hong Kong transport operations	**(4,733)**	**(35.0)**	(4,262)	(29.4)	(11.1)
– Hong Kong station commercial businesses	**2,270**	**16.8**	2,488	17.1	(8.8)
– Total Hong Kong transport services	**(2,463)**	**(18.2)**	(1,774)	(12.3)	(38.8)
– Hong Kong property rental and management businesses	**3,800**	**28.1**	4,048	27.9	(6.1)
– Mainland China and international railway, property rental and management subsidiaries[3]	**962**	**7.1**	622	4.3	54.7
– Other businesses, project studies and business development expenses	**(539)**	**(4.0)**	(567)	(3.9)	4.9
– Impairment loss on Shenzhen Metro Line 4	**(962)**	**(7.1)**	–	–	n/m
Share of profit of associates and joint ventures	**1,095**	**8.1**	968	6.7	13.1
	1,893	**14.0**	3,297	22.7	(42.6)
Property development business EBIT					
– Hong Kong property development	**11,589**	**85.6**	11,097	76.4	4.4
– Mainland China property development	**59**	**0.4**	129	0.9	(54.3)
	11,648	**86.0**	11,226	77.3	3.8
Total EBIT	**13,541**	**100.0**	14,523	100.0	(6.8)
Loss from fair value measurement of investment properties	**(810)**		(1,616)		49.9
Interest and finance charges	**(982)**		(967)		(1.6)
Profit before taxation	**11,749**		11,940		(1.6)
Income tax	**(1,608)**		(2,261)		28.9
Profit for the year	**10,141**		9,679		4.8
Non-controlling interests	**(314)**		(127)		(147.2)
Profit for the year attributable to shareholders of the Company	**9,827**		9,552		2.9
Profit/(loss) for the year attributable to shareholders of the Company arising from:					
Recurrent businesses					
– in Hong Kong	**384**		979		(60.8)
– outside Hong Kong	**(227)**		829		n/m
	157		1,808		(91.3)
Property development businesses					
– in Hong Kong	**10,413**		9,277		12.2
– outside Hong Kong	**67**		66		1.5
	10,480		9,343		12.2
Underlying businesses	**10,637**		11,151		(4.6)
Fair value measurement of investment properties	**(810)**		(1,599)		49.3
Total profit for the year attributable to shareholders of the Company	**9,827**		9,552		2.9

Notes

1 *EBITDA represents operating profit/(loss) before fair value measurement of investment properties, depreciation, amortisation, impairment loss, variable annual payment, share of profit of associates and joint ventures, interest, finance charges and taxation.*

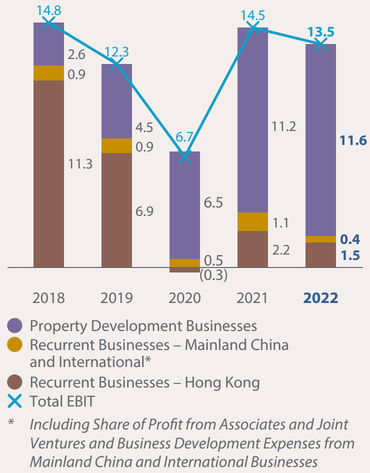
2 *EBIT represents profit/(loss) before fair value measurement of investment properties, interest, finance charges and taxation and after variable annual payment.*

3 *Excluding the impairment loss of HK$962 million in respect of Shenzhen Metro Line 4 in Mainland China.*

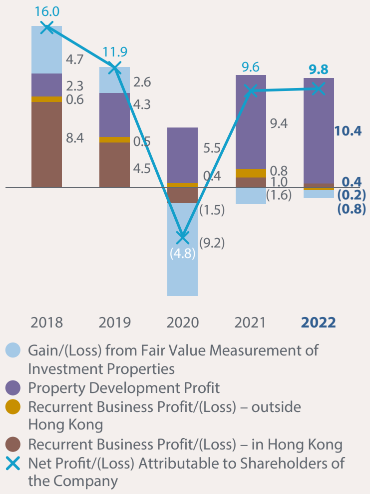
n/m: not meaningful

Total Revenue
(HK$ billion)

Total EBIT
(HK$ billion)



Net Profit/(Loss) Attributable to Shareholders of the Company
(HK$ billion)



	2022	2021	Favourable/ (Unfavourable) Change %
Financial ratios			
EBITDA margin(4) *(in %)*	**16.5**	17.3	(0.8)% pt.
EBITDA margin(4) (excluding Mainland China and international subsidiaries δ) *(in %)*	**30.5**	32.7	(2.2)% pts.
EBIT margin(5) *(in %)*	**1.8^**	5.2	(3.4)% pts.
EBIT margin(5) (excluding Mainland China and international subsidiaries φ) *(in %)*	**3.7**	7.8	(4.1)% pts.
Net debt-to-equity ratio(6) *(in %)*	**23.3**	18.1	(5.2)% pts.
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**5.9**	6.3	(0.4)% pt.
Interest cover(7) *(times)*	**14.2**	14.4	(0.2) time
Share information			
Basic earnings per share *(in HK$)*	**1.59**	1.55	2.6
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.72**	1.80	(4.4)
Ordinary dividend per share *(in HK$)*	**1.31**	1.27	3.1
Dividend payout ratio (based on underlying business profit) *(in %)*	**76**	71	5% pts.
Share price at 31 December *(in HK$)*	**41.35**	41.85	(1.2)
Market capitalisation at 31 December *(in HK$ million)*	**256,455**	259,196	(1.1)
Hong Kong Transport Operations			
Total passenger boardings *(in million)*			
Domestic Service	**1,334.6**	1,421.7	(6.1)
Cross-boundary Service	**0.4**	0.5	(11.7)
High Speed Rail	**–**	–	n/m
Airport Express	**3.1**	2.2	44.2
Light Rail and Bus	**180.0**	191.9	(6.3)
Average number of passengers *(in thousand)*			
Domestic Service *(weekday)*	**3,920.1**	4,188.8	(6.4)
Cross-boundary Service *(daily)*	**1.2**	1.3	(11.7)
High Speed Rail *(daily)*	**–**	–	n/m
Airport Express *(daily)*	**8.5**	5.9	44.2
Light Rail and Bus *(weekday)*	**515.7**	548.2	(5.9)
Average fare *(in HK$)*			
Domestic Service	**8.06**	7.64	5.5
Cross-boundary Service	**9.55**	9.85	(3.1)
High Speed Rail	**–**	–	n/m
Airport Express	**41.27**	41.27	–
Light Rail and Bus	**3.12**	3.04	2.6
Proportion of franchised public transport boardings *(in %)*	**48.3**	47.3	1.0% pt.

Notes

4 *EBITDA margin represents total EBITDA (excluding Hong Kong property development profit from share of surplus and interest in unsold properties) as a percentage of total revenue.*

5 *EBIT margin represents total EBIT (excluding Hong Kong property development profit from share of surplus and interest in unsold properties, and share of profit of associates and joint ventures) as a percentage of total revenue.*

6 *Net debt-to-equity ratio represents 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 and investment in bank medium-term notes in the consolidated statement of financial position as a percentage of total equity.*

7 *Interest cover represents operating profit before fair value measurement of investment properties, depreciation, amortisation, impairment loss, variable annual payment and share of profit of associates and joint ventures divided by gross interest and finance charges before capitalisation, and utilisation of government subsidy for Shenzhen Metro Line 4 operation.*

δ *Excluding the relevant revenue and expenses of Mainland China and international subsidiaries of HK$26,189 million and HK$24,865 million (2021: HK$25,398 million and HK$24,379 million) respectively.*

φ *Excluding the relevant revenue, expenses, depreciation and amortisation, and impairment loss of Mainland China and international subsidiaries of HK$26,189 million, HK$24,865 million, HK$303 million, and HK$962 million (2021: HK$25,398 million, HK$24,379 million, HK$268 million, and HK$nil) respectively.*

^ *Excluding the impairment provision of HK$962 million made in respect of Shenzhen Metro Line 4, the EBIT margin would have been 3.8%.*

OUR NETWORK

LEGEND

- Station
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- Shenzhen Metro Network
- * Racing days only

EXISTING NETWORK

- Airport Express
- Disneyland Resort Line
- East Rail Line
- High Speed Rail
- Island Line
- Kwun Tong Line
- Light Rail
- South Island Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tuen Ma Line
- Tung Chung Line

PROJECTS IN PROGRESS

- Tung Chung Line Extension, Tung Chung East and Tung Chung West stations
- Airport Railway Extended Overrun Tunnel
- Oyster Bay Station

POTENTIAL FUTURE EXTENSIONS

- Tuen Mun South Extension
- Northern Link and Kwu Tung Station
- Northern Link Spur Line
- East Kowloon Line
- South Island Line (West)
- North Island Line
- Hung Shui Kiu Station
- Pak Shek Kok Station

PROPERTIES OWNED / DEVELOPED / MANAGED BY THE CORPORATION

01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square 1 / Maritime Square 2
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas
34 The Capitol / Le Prestige / Hemera / Wings at Sea / MALIBU / LP6 / MONTARA / SEA TO SKY / MARINI / GRAND MONTARA / GRAND MARINI / OCEAN MARINI / LP10 / The LOHAS
35 The Palazzo
36 Lake Silver
37 Festival City
38 The Riverpark
39 Century Gateway
40 THE PAVILIA FARM I / THE PAVILIA FARM II
42 The Austin / Grand Austin
43 SOUTHLAND
45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Sol City

PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

34 LOHAS Park Packages
40 Tai Wai Station Packages
41 Tin Wing Stop
43 THE SOUTHSIDE Packages
44 Ho Man Tin Station Packages
51 Yau Tong Ventilation Building
52 Tung Chung Traction Substation
53 Pak Shing Kok Ventilation Building
54 Oyster Bay Packages
55 Tung Chung East Station Packages

WEST RAIL LINE PROPERTY DEVELOPMENTS (AS AGENT FOR THE RELEVANT SUBSIDIARIES OF KCRC)

39 Century Gateway
45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Sol City
48 Yuen Long Station
49 Kam Sheung Road Station Packages
50 Pat Heung Maintenance Centre

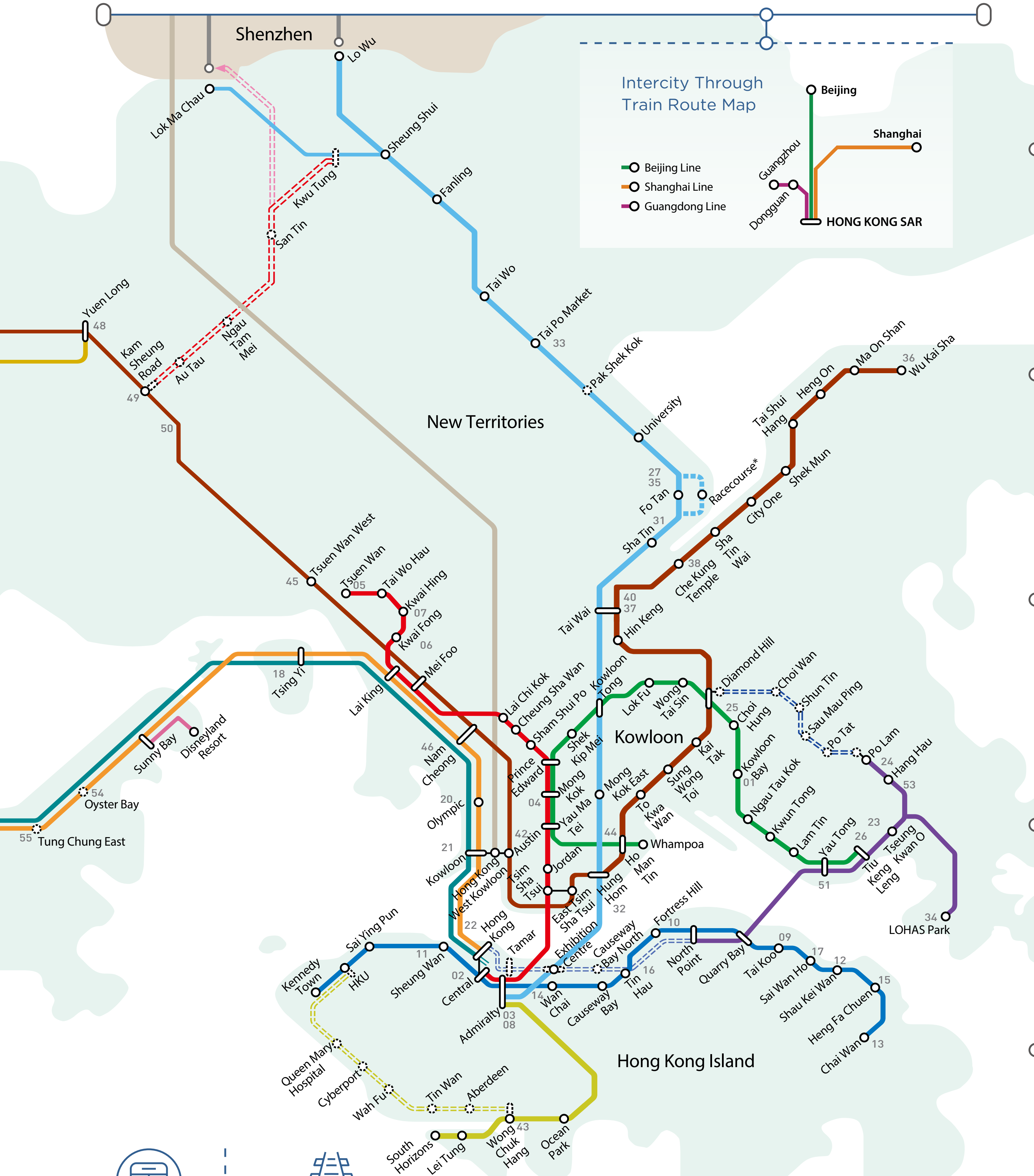
MAINLAND CHINA AND INTERNATIONAL BUSINESSES

MAINLAND CHINA AND MACAO

AUSTRALIA

EUROPE

HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS



99 Stations

271 km Route Length

CHAIRMAN'S LETTER

Dear Shareholders and other Stakeholders,

Conventional wisdom says that a strong start is important, but a strong finish is even better. The year under review is a case in point. Although 2022 began with promise, the fifth wave of COVID-19 soon sent Hong Kong into another period of tightened anti-pandemic and social distancing measures that inevitably impacted MTR's railway patronage and retail traffic. Meanwhile, cross-boundary services remained closed, further reducing revenue from the Company's recurrent businesses. But despite it all, we were still able to accomplish a great deal. We opened the highly anticipated East Rail Line cross-harbour extension, an important new piece of railway infrastructure that creates a new route spanning Victoria Harbour to offer added convenience and greatly reduced travelling times for the tens of thousands of passengers who travel along the East Rail Line to and from Hong Kong Island every day. We announced the signing of agreements to embark on new railway extension projects that will also provide thousands of much-needed new homes. Many exciting opportunities lie ahead for us to participate in the further development of railway networks in Hong Kong, Mainland China and around the world. Perhaps most encouraging of all were the lifting of travel restrictions in late 2022 and subsequent resumption of cross-boundary traffic, decisions that not only signal the world's transition from pandemic to endemic, but which also bode very well for Hong Kong's economy as well as our own business.

The last two months of the year included a pair of concerning incidents that we regard as matters demanding thorough investigation. Such events are unfortunate, but they also provide opportunities for us to strengthen our operations and organisation. In fact, we are constantly seeking to enhance and improve ourselves; in 2022, for example, we continued to make solid progress towards the full integration of our environmental, social and governance objectives, which are playing more critical roles in our strategic planning and operations.

Ever since the outbreak of COVID-19 in early 2020, we have been working closely with our communities to keep people safe and Keep Cities Moving. We have also spent the past three years building MTR into an organisation that operates together with the communities it serves as we strive together for a better future. I am confident that the foundations we have laid will support the sustainable growth of the Company and Hong Kong as we overcome the difficulties of recent times and embrace a promising new era.

BUSINESS PERFORMANCE AND GROWTH

Undoubtedly, one of the highlights of the year happened on 15 May 2022, when the East Rail Line cross-harbour extension commenced service. The century-old East Rail Line now crosses the Victoria Harbour to connect the New Territories and Kowloon with Hong Kong Island, providing enhanced connectivity for passengers during their daily commutes. The opening also marked the culmination of a critical period in the development of Hong Kong's railway transport infrastructure. In November, we were proud to put our first new eight-car Q-trains into service, refreshing our fleet and delivering added comfort for passengers.

On 20 September 2022, Government launched a three-month public consultation on the review of the Fare Adjustment Mechanism ("FAM"). This review seeks to identify a feasible and pragmatic package that will maintain the financial sustainability of the Company while enabling it to take new railway projects forward; cope with increasing expenditures for maintaining the railway system and respond to public concerns regarding fare adjustments. This regular review, which takes place every five years, is expected to be concluded in the first half of 2023. Following the completion of the review, the updated FAM will take effect in June 2023.

Our Hong Kong property development business continued to thrive in 2022. We awarded the Pak Shing Kok Ventilation Building and Tung Chung Traction Substation development projects, which together are expected to offer approximately 2,150 units to local residents. In November, we completed the land exchange documents for the Siu Ho Wan Depot to transform the site into a new development called "Oyster Bay", which will provide about 10,720 private residential units.

To cater for the transportation needs of the future Oyster Bay community, we entered into a Project Agreement with Government for building a new Oyster Bay Station. We also entered into a Project Agreement with Government for the Tung Chung Line Extension to enhance the connectivity of North Lantau. Other railway projects continued to make satisfactory progress during the year as well, including those where we are supporting Government's Railway Development Strategy 2014 for Hong Kong's future railway network expansion.

It was also a year of achievements for our Mainland China and international businesses. In May 2022, the MTR-operated Central Operating Section of London's Elizabeth line commenced service, marking an exciting new era of travel for one of the world's busiest cities. In December, our associate commenced service of the Southern Section of Beijing Metro Line 16, further connecting key areas of the capital and bringing the total length of MTR's operational network in Mainland China to more than 300 kilometres.

Everywhere we operate – from our home city of Hong Kong to Mainland China and major markets in Australia and Europe – we strive to Keep Cities Moving with safe, reliable, accessible and sustainable rail transport services. Therefore, it was heartening to learn that a 2022 study by the University of California, Berkeley, and the Oliver Wyman Forum determined Hong Kong to be the world's best city for public transit. As the city's mass railway transport provider, we feel both privileged and honoured to play a key role in connecting communities across the city, bringing convenience to people's daily lives and contributing to the growth of the local economy.

FINANCIAL PERFORMANCE

The fifth wave of COVID-19 resulted in decreased domestic patronage and retail traffic in 2022 despite general recoveries over the second half of the year. Meanwhile, the closures of cross-boundary stations in 2022 continued to have significant impacts on fare revenue and rentals. With the recent reopening of cross-boundary stations, we have now seen a gradual improvement in railway patronage and retail traffic.

Profit from our recurrent businesses was HK$1,119 million before the HK$962 million impairment provision made in respect of Shenzhen Metro Line 4. Together with the profit from our property development businesses, which increased by 12.2% to HK$10,480 million, profit from our underlying business was HK$10,637 million. Including the loss arising from the fair value measurement of investment properties, net profit attributable to shareholders of the Company in 2022 was HK$9,827 million, equating to earnings per share of HK$1.59. The 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 will bring the full-year dividend to HK$1.31 per share (2021: HK$1.27 per share).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We strongly believe that having a robust environmental, social and governance framework helps us achieve sustainable growth for the Company and its shareholders while also taking account of other stakeholder interests and providing tangible benefits for the communities we serve in Hong Kong and around the world. Since unveiling our Corporate Strategy, "Transforming the Future", in 2020, we have worked vigorously to align our operations in accordance with our three primary environmental and social objectives: reducing Greenhouse Gas Emissions, promoting Social Inclusion, and fostering Advancement & Opportunities. To help us do this, we have defined 10 specific areas of focus across these three objectives, supported by 35 key performance indicators ("KPIs"). By the end of 2022, many of these KPIs had either been achieved or were on track to be achieved, and we will be setting new KPIs to further challenge ourselves in the pursuit of our corporate purpose.

Reducing Greenhouse Gas Emissions

Climate change is one of the most important issues of our time. At MTR, a global leader in low-carbon transit services, we strive to promote environmental sustainability by taking concrete, measurable actions to manage and further reduce our carbon footprint.

We have completed a comprehensive carbon reduction study to help us establish science-based reduction targets for our railway and property businesses in Hong Kong for 2030, and these 2030 targets have been submitted to the Science Based Targets initiative for validation. Our longer-term goal is to increase our use of green technologies, boost operational efficiencies and collaborate with likeminded partners en route to achieving carbon neutrality by 2050.

In April 2022, we completed the installation of solar panels and glass at Hin Keng Station, supporting the operation of the station's facilities with renewable energy. Installations at Pat Heung and Chai Wan depots are on-going. In 2022, we attained BEAM Plus Provisional Gold accreditation for our proposed Tung Chung East and Tung Chung West stations. In June, we established the HKUST-MTR Joint Research Laboratory with the Hong Kong University of Science and Technology, an initiative designed to promote the application of innovative smart community and smart mobility technologies in railway and other services. We are also pleased that more than 25% of F&B tenants at our shopping malls joined our food waste reduction programme during the year.

In 2022, green finance totalling HK$2.8 billion was arranged under our Sustainable Finance Framework. These funds will go towards supporting the Company's sustainable development via projects designed to conserve energy, protect the environment, and enhance and expand low-carbon railway services.

Promoting Social Inclusion

By its very nature, quality mass transit should be accessible to everyone, irrespective of age, physical ability or socioeconomic status. In November 2022, we proudly launched our new "MTR • Care" mobile app, which offers functions for the elderly and those with special needs. The year also included a series of pre-opening visits and guided tours for NGOs and disabled support groups at the new Exhibition Centre Station. A number of station shops have been let to NGOs at nominal rent to help them provide services for the community and create job opportunities for families with special needs.

At MTR, we work very hard to ensure that our hiring practices, arrangements and support for our colleagues are inclusive and to provide equal employment opportunities for all. This was evident in our 2022 summer internship programme, where we increased the number of interns hired who were either from an ethnic minority background or students with special educational needs to 9%. We also strive to promote social inclusion among our colleagues and strengthen our connections with the community. September 2022 saw the launch of "Social Inclusion Week", a series of events and initiatives during which more than 3,000 colleagues engaged with over 30 NGOs and social enterprises serving people with different needs. The highlight was an "Inclusive Concert" hosted at Telford Plaza, where visually impaired musicians shared stories of overcoming adversity and performed a selection of Chinese and Western music pieces. The year also marked the establishment of our "Gender Equity Network", as one of the milestones in driving diversity, equity and inclusion in our workplace.

It was another productive year for our "More Time Reaching Community" volunteering scheme, which organised 111 activities that attracted a headcount of 1,599 participating volunteers serving 25,000 people in need. In 2022, our volunteers also provided support in packing and delivering anti-pandemic supplies. In addition, we collaborated with schools and NGOs to pilot the "Legacy Train Revitalisation Programme" to preserve and revitalise retired trains and their components.

Fostering Advancement & Opportunities

The achievements of MTR can be attributed to the hard work and drive for excellence of our valued members of staff. In 2022, we continued to offer our colleagues a robust suite of learning and development resources, delivered in both face-to-face and virtual formats to ensure their health and safety during the pandemic. We were also excited to introduce new programmes and self-directed learning initiatives via online platforms.

MTR is passionate about pursuing new innovations and technologies that can help further improve its world-class services. In August 2022, we signed an agreement with Hong Kong Science and Technology Parks Corporation on a three-year cooperative framework structured around exploring technological applications, data collaboration and co-investments in tech ventures to foster the development of smart solutions and promote Hong Kong as a global IT hub. We also sponsored the "She Loves Tech 2022" Global Startup Competition and Global Conference for female entrepreneurs.

During the year, we worked to help young people achieve brighter futures with our "'Train' for Life's Journeys" programme. Themed "Achievement • Inclusion • Dream", the 2022 programme featured sharings, workshops and community visits to help students from diverse backgrounds embrace innovation and inclusion while also offering them valuable career and life planning guidance.

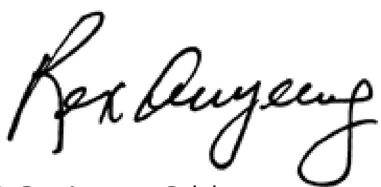
Governance

Following an external evaluation of the effectiveness of the Board and its suitability for providing oversight of the new corporate strategy, we initiated a revamp of the Board's Committee structure in February 2022. This resulted in the establishment of a new Finance & Investment Committee and a new Technology Advisory Panel; the combination of the former Audit Committee and the former Risk Committee to form a new Audit & Risk Committee; and the update of all Board Committees' terms of reference. In 2022, we updated our Board Diversity Policy to include a specific gender diversity target for the Board to have no less than 20% female members with immediate effect and no less than 25% by 2025. We also held our first-ever hybrid format Annual General Meeting in May, offering our shareholders additional ways of participating in the meeting and, at the same time, helping to reduce our carbon footprint.

ACKNOWLEDGEMENTS AND APPRECIATION

I would like to take this opportunity to recognise the contributions of our Board, Members of Executive Directorate, management and staff, whose guidance and hard work have been invaluable to our mission to Keep Cities Moving no matter the circumstances. In particular, I would like to thank once more Dr Anthony Chow Wing-kin, Dr Eddy Fong Ching and Mr Benjamin Tang Kwok-bun, who retired from their roles as Independent Non-Executive Directors of the Board on 25 May 2022, for their strong leadership and counsel. I also welcome once again Mr Sunny Lee Wai-kwong and Mr Carlson Tong, who were appointed as Independent Non-Executive Directors of the Board on 25 May 2022, and Mr Lam Sai-hung (Secretary for Transport and Logistics), who re-joined the Board as a Non-executive Director in July 2022. I would also like to thank Mr Frank Chan Fan (former Secretary for Transport and Housing) for his valuable contributions to the Board and the Company during his tenure.

It has been a tumultuous few years, but I believe that better times are ahead. I have no doubt that our talented, dedicated people will help take MTR and Hong Kong towards a promising new horizon as we move ahead full steam into 2023.



Dr Rex Auyeung Pak-kuen
Chairman
Hong Kong, 9 March 2023

CEO'S REVIEW
OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

I am pleased to report on MTR Corporation Limited's performance and progress in 2022.

In another trying year, we continued to deliver world-class service for our customers while enhancing the quality and comfort of our transit services. In Hong Kong, we delivered a major piece of railway infrastructure that has greatly boosted convenience for passengers travelling across Victoria Harbour, while our property development business secured a major project that will increase the city's supply of much-needed residential units. We also continued to make promising headway in terms of our environmental and social objectives – particularly in our focus areas of Greenhouse Gas ("GHG") Emissions Reduction, promoting Social Inclusion, and fostering Advancement & Opportunities – while further embedding the goals and values of our Corporate Strategy throughout the organisation to achieve sustainable, mutually beneficial growth for MTR and the communities that we serve around the world.

Undoubtedly, one of the highlights of the year was the commencement of the East Rail Line cross-harbour extension, the final piece of the Shatin to Central Link project. This milestone represents not only the completion of a major infrastructure project, one that seamlessly connects the New Territories and Kowloon with Hong Kong Island, but also the conclusion of an important era in the growth of the city's railway network. We were also proud to introduce our initial set of new eight-car Q-trains, which have been deployed along the Kwun Tong Line. These are the first of 93 new trains that are being brought in to replace our existing rail fleet throughout the Hong Kong network.

It was also a successful year for our property development business. We completed the land exchange documents for the Siu Ho Wan Depot to transform the site into a new development called "Oyster Bay", which is expected to provide about 10,720 private residential units to the city's housing supply. To serve this future community with convenient rail transport service, we also entered into a Project Agreement with Government for the new Oyster Bay Station. Elsewhere, we awarded tenders for the Pak Shing Kok Ventilation Building and Tung Chung Traction Substation property development projects in 2022. These two projects should deliver about 2,150 residential units.

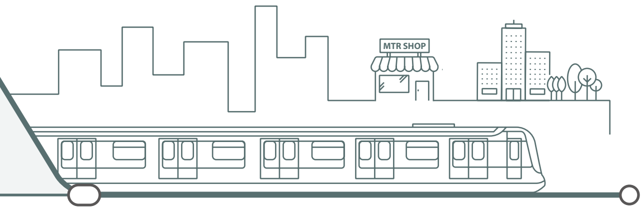
We continued to make headway on a number of projects under Government's Railway Development Strategy 2014 ("RDS 2014"), the blueprint for the future development of Hong Kong's railway network. On 28 February 2023, the Company entered into a Project Agreement with Government for the Tung Chung Line Extension, which will enhance the connectivity of North Lantau and support the growth of communities around rail stations in line with Government's strategy of making railways the backbone of public transport.

In our Mainland China and international businesses, we proudly commenced service of the Central Operating Section of London's Elizabeth line, a landmark development that has increased the city's rail capacity. Our wholly owned subsidiary is responsible for the daily operations of the full line, which is over 100km in route length. The Southern Section of Beijing Metro Line 16 ("BJL16") opened for passenger service in December 2022, enhancing Beijing's metro network and providing passengers with more commuting options. We also continued to explore opportunities in Mainland China and overseas for railway projects and transit-oriented development ("TOD") that can further diversify our revenue streams and build the MTR brand globally.

Financially, the Company's results were impacted by the fifth wave of COVID-19 in the first half of the year, which had negative effects on patronage, fare revenue and revenue from commercial rentals, although property development profit offset this to some degree. Profit attributable to equity shareholders from recurrent businesses was HK$1,119 million before the HK$962 million impairment provision made in respect of Shenzhen Metro Line 4 ("SZL4"), while property development profit increased by 12.2% to HK$10,480 million. Profit attributable to shareholders from underlying businesses was HK$10,637 million. Including the loss arising from fair value measurement of investment properties, net profit attributable to the shareholders of the Company was HK$9,827 million, representing earnings per share of HK$1.59.

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. This represents an increase of 3.1% compared to 2021.

HONG KONG BUSINESSES



MTR operates largely under a rail plus property business model that includes the Company's "Hong Kong Transport Services" – comprising rail and bus services as well as related commercial activities at stations – and the development, rental and management of its railway-linked properties. Such a business model benefits MTR, all of its shareholders and communities at large.

In 2022, COVID-19 continued to impact our domestic patronage and fare revenue. The outbreak also affected retail traffic and rentals. Since the lifting of international air travel restrictions in late 2022 and the reopening of cross-boundary stations in early 2023, we have seen gradual recoveries in railway patronage and retail traffic.

Hong Kong Transport Services – Transport Operations

	Year ended 31 December		
HK$ million	**2022**	2021	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**13,404**	13,177	1.7
Operating Profit/(Loss) before Depreciation, Amortisation and Variable Annual Payment ("EBITDA")	**691**	834	(17.1)
(Loss)/Profit before Interest, Finance Charges, Taxation and after Variable Annual Payment ("EBIT")	**(4,733)**	(4,262)	(11.1)
EBITDA Margin (in %)	**5.2%**	6.3%	(1.1)% pts.
EBIT Margin (in %)	**(35.3)%**	(32.3)%	(3.0)% pts.

In 2022, total revenue from Hong Kong transport operations increased by 1.7% to HK$13,404 million compared to the HK$13,177 million recorded in 2021. Loss before interest, finance charges, taxation and after variable annual payment was HK$4,733 million. The increase in loss was mainly due to increased staff and energy costs as well as higher depreciation resulting from the opening of the East Rail Line cross-harbour extension.

Patronage and Revenue

	Patronage In millions		Revenue HK$ million	
	2022	Inc./(Dec.) %	**2022**	Inc./(Dec.) %
Hong Kong Transport Operations				
Domestic Service	**1,334.6**	(6.1)	**11,245**	1.6
Cross-boundary Service	**0.4**	(11.7)	**4**	(20.0)
High Speed Rail ("HSR")	**–**	n/m	**1,401**	2.8
Airport Express	**3.1**	44.2	**128**	43.8
Light Rail and Bus	**180.0**	(6.3)	**561**	(3.8)
Intercity	**–**	n/m	**–**	n/m
	1,518.1	(6.1)	**13,339**	1.8
Others			**65**	(7.1)
Total			**13,404**	1.7

n/m: not meaningful

Total patronage for all MTR rail and bus services decreased by 6.1% to 1,518.1 million compared to 1,616.3 million in 2021 due to the effects of the pandemic. Average weekday patronage decreased by 6.3% to 4.45 million. The recent reopening of cross-boundary stations between Hong Kong and Mainland China has had a positive impact on our patronage, and cross-boundary patronage in particular will gradually recover. Restrictions and quarantine requirements for travellers entering Hong Kong suppressed Airport Express patronage in the first half of the year, although the relaxation of such measures in the second half led to a recovery. Throughout the year, MTR continued to offer special promotions and fare discounts for domestic travel to help drive ridership and mitigate the effects of the pandemic. The end of the special rebate programme in March 2021 had a positive effect on the average fare for Domestic Service in 2022.

Market Share

MTR's overall market share of the franchised public transport market in Hong Kong in 2022 increased to 48.3% compared with 47.3% in 2021. This was due to additional patronage from the openings of the full Tuen Ma Line in June 2021 and East Rail Line cross-harbour extension in May 2022. The Company's share of cross-harbour traffic was 70.1% compared with 67.6% in 2021. Our share of the cross-boundary business, including HSR and Cross-boundary Service, was 0% on account of the closures of all boundary crossings that we serve. Our share of traffic to and from the airport was 18.2% compared to 21.6% in 2021, mainly due to the denominator effect resulting from a sharp increase in inbound travellers who were under closed-loop quarantine using designated transport vehicles during the most part of the year and thereby unable to use any public transport.

Fare Adjustment, Promotions and Concessions

In March 2022, MTR announced there would be no adjustment of fares in 2022/23 according to the fare adjustment mechanism ("FAM") and that the Overall Fare Adjustment Rate, calculated at 0.5%, would be rolled over to 2023/24. Including the 1.85% fare decrease announced in 2021/22, this was the third consecutive year that there was no fare increase under the FAM. MTR also announced that its special 3.8% fare rebate (0.8% on top of the committed 3.0% rebate under the FAM) would be extended till 31 January 2023. In addition to the extension of the 3.8% fare rebate, the Company offered other promotions worth over HK$600 million in total for 2022/23. To further reduce economic hardship during the pandemic and promote accessibility and inclusivity, the Company also continued to offer approximately HK$2.1 billion in on-going fare concessions to customers including general commuters, the elderly, children, eligible students and persons with disabilities.

On 20 September 2022, the Government launched a three-month public consultation on the review of the FAM. This review seeks to identify a feasible and pragmatic package that will maintain the financial sustainability of the Company and enable it to take new railway projects forward; cope with increasing expenditures for maintaining the railway system; and respond to public concerns regarding fare adjustments. This regular review, which takes place every five years, is expected to be concluded in the first half of 2023. Following the completion of the review, the updated FAM will take effect in June 2023.

Service Performance

MTR is committed to achieving excellence in service and reliability. During the year, we once again attained a world-class 99.9% rate in passenger journeys on-time and train service delivery for our heavy rail network.

In 2022, we ran more than 1.64 million train trips on our heavy rail network and more than 0.89 million trips on our light rail network. There were eight delays (defined as those lasting 31 minutes or more and attributable to factors within the Company's control) on the heavy rail network and no delays of this nature on the light rail network.

We are very concerned about the two incidents in late 2022, which demand extensive investigation and follow-up action. In November, a metallic trackside protection barrier came dislodged and collided with a Tsuen Wan Line train that was entering Yau Ma Tei Station. As a result, the front wheel axle of the first car came off the rail, and two pairs of train doors were dislocated. The investigation report was made public in January 2023. It revealed that there was serious corrosion of the metallic protection barrier's mounting bolts and nuts, both at its base frames on the ground and on the tunnel wall, thus causing structural instability. We are implementing the improvement measures recommended in the report. In December 2022, a Tseung Kwan O Line train approaching Tseung Kwan O Station was brought to a stop by the fault-protection mechanism because an abnormal extension of the gangway between the sixth and seventh train cars was detected. The investigation report was made public in February 2023. It concluded that the incident was caused by the detachment of a collar that held the energy absorption device in a secured position within the semi-permanent coupler assembly of the train's sixth car, resulting in the device dislodging internally. Besides inspecting energy absorption devices removed from inter-car coupler assemblies of the same type, we are also implementing the improvement actions recommended in the report.

It is the Company's top priority to provide safe, reliable and efficient railway services for passengers. In addition to carrying out immediate and in-depth investigations into these two incidents, MTR set up an Expert Panel in December 2022 to conduct a comprehensive review of the Company's railway asset management and maintenance regime with the aim of completing the review and reporting to the Board in six months.

Enhancing the Customer Service Experience

On 15 May 2022, we opened the East Rail Line cross-harbour extension. Passengers now have a fourth option for crossing the harbour to and from Hong Kong Island, enabling even faster, more convenient railway service.

We also made numerous enhancements to our customer services and facilities in 2022. Works included installing smart toilet facilities and drinking water dispensers as well as initiating a programme for providing a wheelchair charging service at station concourse to improve accessibility for the disabled and customers with special needs.

During the year, we completed the last phase of our chiller replacement programme. A total of 154 newer, more energy-efficient chillers have been installed that will deliver increased comfort for commuters in stations while reducing approximately 15,000 tonnes of CO_2 per annum. A new programme to replace 31 more chillers will take place between 2023 and 2026.

By December 2022, three new eight-car Q-trains had commenced service on the Kwun Tong Line, part of our extensive efforts to phase out older trains and replace them with newer, more comfortable models. As at 31 December 2022, the Company had received delivery of 19 of the 93 new eight-car heavy rail trains ordered, which will be put into passenger service in stages over the next few years.

Signalling replacement is an important asset renewal project. The replacement of our existing signalling system ("SACEM System") by a communication-based train control signalling system ("CBTC System") along the Island, Tseung Kwan O, Kwun Tong and Tsuen Wan lines continued in 2022. During the year, a revised technical proposal for the project was developed using established CBTC software with a range of customised functions that are essential for MTR operations. Once the CBTC System project is completed, train services can be enhanced to increase overall carrying capacity, fulfilling our long-term operational needs. After undergoing necessary testing and meeting the requirements of relevant Government departments, the new CBTC System is expected to commence service on the Tsuen Wan Line between 2025 and 2026, followed by implementation on the Island, Kwun Tong and Tseung Kwan O lines. Overall project completion is expected between 2028 and 2029.

Smart Mobility, Operations and Maintenance

MTR strives to "Go Smart Go Beyond" in its customer service, operations and maintenance, adopting the latest technologies, innovations and sustainable practices to make the Company and customer journey better than ever. During the year, we added the UnionPay and WeChat Pay options to our QR code ticketing at gates for added convenience. We introduced the new "Cross-Harbour Easy", a display located at Admiralty Station's concourse and interchange platform, to show real-time traffic and train frequency along the Tsuen Wan Line and East Rail Line platforms and enable passengers to select their best route. In 2022, MTR also became the first global transport operator to join The Sandbox metaverse, where we are creating an immersive, railway-themed virtual space to engage with the younger generations.

Our quest to "Go Smart Go Beyond" is also helping us improve our railway maintenance and operations. For example, we are now employing an artificial intelligence-powered SACEM Remote Monitoring and Alarm Detection ("AI SACEM") platform, co-developed with Alibaba Cloud, that streams fault log data via telecommunication so we can analyse, predict and respond to faults earlier.

Hong Kong Transport Services – Station Commercial Businesses

HK$ million	Year ended 31 December 2022	2021	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**1,544**	1,594	(3.1)
Advertising Revenue	**836**	894	(6.5)
Telecommunication Income	**616**	631	(2.4)
Other Station Commercial Income	**81**	89	(9.0)
Total Revenue	**3,077**	3,208	(4.1)
EBITDA	**2,555**	2,728	(6.3)
EBIT	**2,270**	2,488	(8.8)
EBITDA Margin (in %)	**83.0%**	85.0%	(2.0)% pts.
EBIT Margin (in %)	**73.8%**	77.6%	(3.8)% pts.

In 2022, total revenue from all Hong Kong station commercial activities decreased by 4.1% to HK$3,077 million. This was mainly due to the impact of the fifth wave of COVID-19, which led to lower spending by advertisers and lower rental revenue from negative rental reversions.

Station retail rental revenue decreased by 3.1% to HK$1,544 million, which was primarily attributed to negative rental reversions. To retain and attract small and medium tenants during the pandemic, we continued to offer flexible and/ or shorter-term leases. Rental reversion and average occupancy rates for station kiosks were approximately -14.6% and 97.3%, respectively. To help drive traffic to our station retail outlets in a difficult economic environment, we ran several promotions via our MTR Mobile app and MTR Points loyalty programme, and we also reviewed our tenant mix to ensure the attractiveness of our retail offerings. Our Duty Free business was impacted by the closure of cross-boundary stations. In early 2023, Duty Free business resumed with the reopening of cross-boundary stations. However, its performance is expected to be impacted as compared to the past by contracts that were renewed in adverse market conditions, and it will also be dependent on patronage and turnover levels.

As at 31 December 2022, the lease expiry profile of our station kiosks (including Duty Free shops) by area occupied was such that approximately 36% will expire in 2023, 24% in 2024, 35% in 2025, and 5% in 2026 and beyond.

In terms of trade mix, food and beverage accounted for approximately 46% of the leased area of our station kiosks (excluding Duty Free shops) as at 31 December 2022, followed by cake shops at 15%, convenience stores at 15%, passenger services at 10% and others at 14%.

Advertising revenue decreased by 6.5% to HK$836 million in 2022. Spending started to improve in the latter part of the year after the fifth wave of the pandemic subsided. During the year, we continued our progress in transforming our media to digital advertising platforms, offered competitive sales packages, and designed flexible, targeted packages, including online-plus-offline campaign offerings.

Telecommunications revenue was HK$616 million in 2022, representing a 2.4% decrease compared to the previous year. 5G services were available at 75 stations by the end of 2022. We also issued a tender for a new commercial 5G telecom system in the fourth quarter of the year. A co-developed data centre service in Tseung Kwan O has been up and running since February 2022.

Property Businesses

Property Rental and Management

HK$ million	Year ended 31 December 2022	2021	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,525**	4,787	(5.5)
Revenue from Property Management	**254**	249	2.0
Total Revenue	**4,779**	5,036	(5.1)
EBITDA	**3,815**	4,066	(6.2)
EBIT	**3,800**	4,048	(6.1)
EBITDA Margin (in %)	**79.8%**	80.7%	(0.9)% pt.
EBIT Margin (in %)	**79.5%**	80.4%	(0.9)% pt.

In 2022, revenue from property rental and management decreased by 5.1% year on year to HK$4,779 million as rental revenue suffered from the pandemic's dampening effects on mall traffic and rental reversions. We also continued to offer rental concessions for tenants, which are granted on a case-by-case basis. For the year, MTR shopping malls recorded a rental reversion of -9.0% and an average occupancy rate of 99%. The Company's 18 floors in Two International Finance Centre had an average occupancy rate of 94%.

As at 31 December 2022, the lease expiry profile of our shopping malls by area occupied was such that approximately 36% will expire in 2023, 30% in 2024, 17% in 2025, and 17% in 2026 and beyond.

In terms of trade mix, food and beverage accounted for approximately 28% of the leased area of our shopping malls as at 31 December 2022, followed by services (24%), fashion, beauty and accessories (21%), leisure and entertainment (18%), and department stores and supermarkets (9%).

In 2022, mall rentals continued to be impacted by the pandemic and the closure of cross-boundary stations. To drive traffic to our malls, we launched tactical promotional programmes via our MTR Mobile app as well as targeted marketing campaigns designed to appeal to specific groups of shoppers. We also proudly launched "LOUDER", a new retail programme to help small local brands build their businesses through enhanced online-to-offline presence. This initiative is part of our efforts to drive our New Growth Engine and support MTR's sustainable business growth and environmental, social and governance objectives by creating opportunities for small local businesses to grow alongside the Company.

Property Development and Tendering

In 2022, Hong Kong property development profit (post-tax) was HK$10,413 million. This was mainly derived from LP10 (LOHAS Park Package 10), SOUTHLAND (THE SOUTHSIDE Package 1) and La Marina (THE SOUTHSIDE Package 2).

During the year, pre-sales activities continued for our property development projects. As at 31 December 2022, SOUTHLAND and La Marina were 78% and 83% sold, respectively, while LP10 was 89% sold. Pre-sales for Villa Garda I and II (LOHAS Park Package 11) launched in June and July 2022 and were 79% and 22% sold, respectively, as at the end of the year. We have also obtained pre-sale consent for IN ONE Phase IA, Phase IB and Phase IC (Ho Man Tin Station Package 2) and Phase 4A and Phase 4B of THE SOUTHSIDE Package 4.

Earlier in 2022, we awarded the Pak Shing Kok Ventilation Building property development project to a consortium formed by New World Development Company Limited and China Merchants Land Limited. We also awarded the Tung Chung Traction Substation property development project to a subsidiary of Chinachem Group. Three tender submissions for Oyster Bay Package 1 were received in February 2023. However, we decided not to accept any of the tender submissions as none of them met our minimum requirements, and we will retender the project in due course subject to market conditions.

GROWING OUR HONG KONG BUSINESSES

In 2022, we strengthened our "Hong Kong Core" strategic pillar by completing a major infrastructure project, securing an important future residential development and making headway on important initiatives under Government's RDS 2014.

Shatin to Central Link

In May 2022, we opened the East Rail Line cross-harbour extension, marking the completion of the Hung Hom to Admiralty Section of the Shatin to Central Link. Passengers are now enjoying enhanced connectivity and reduced travel times between Hong Kong Island and Kowloon and the New Territories. The opening also signified the conclusion of an important era in the development of Hong Kong's railway transport infrastructure, one that included a total of five new rail projects.

Building the Future of the Hong Kong Railway Network

With the completion of the Shatin to Central Link, MTR is now fully focused on the next exciting phase of rail transport development in Hong Kong. In addition to building infrastructure to support future communities, we are also working on projects under RDS 2014, initiatives for the new Northern Metropolis Development Strategy, and strategic railway projects recommended under the Strategic Studies on Railways and Major Roads Beyond 2030 ("RMR2030+ Study"). Together, these initiatives will provide more efficient links between local communities, strengthen economic ties with neighbouring cities in the Greater Bay Area, and create opportunities for TOD that benefits residents and grows the Company's businesses.

On 23 September 2022, we entered into a Project Agreement with Government on the financing, design, construction, operation and maintenance of a new Oyster Bay Station, which will serve the future Oyster Bay community at the existing Siu Ho Wan Depot Site. Construction is expected to commence in 2023 and be completed in 2030.

On 28 February 2023, the Company entered into a Project Agreement with Government for the financing, design, construction, operation, and maintenance of the Tung Chung Line Extension. This agreement also covers the construction of the Airport Railway Extended Overrun Tunnel. The Tung Chung Line Extension project will be funded by the financial contribution from the "Rail plus Property" development model and the Company's internal resources. With the Project Agreement in place, the tendering for the key contracts of Tung Chung Line Extension will be completed soon, upon which the project will proceed to the construction stage. It is expected that the construction of the Tung Chung Line Extension will commence in mid-2023 for targeted completion in 2029, while the construction of the Airport Railway Extended Overrun Tunnel is targeted to commence in 2025 for completion in 2032.

Regarding RDS 2014, for the Tuen Mun South Extension, the scheme was authorised under the Railways Ordinance in June 2022. Construction will commence in 2023 and is targeted for completion in 2030. For the new Kwu Tung Station on the East Rail Line, the scheme was authorised under the Railways Ordinance in November 2022; construction is expected to commence in 2023 for completion in 2027. The preliminary design of the Northern Link main line is progressing. The scheme for the new Hung Shui Kiu Station on the Tuen Ma Line was gazetted under the Railways Ordinance in February 2023, and we are working on the reference design of this new station. Apart from challenges on the availability of sufficient labour in Hong Kong's construction sector, each of these projects has its own technical difficulties and challenges to be addressed, including works needing to be carried out at night during non-traffic hours. It should be noted that we are still in various stages of discussions with Government on the abovementioned projects and have yet to enter into project agreements. However, Government has announced its intention to proceed with MTR on these projects using the ownership approach. Elsewhere, we are also working with Government on the South Island Line (West) and North Island Line.

As Hong Kong's leading provider of low-carbon mass transportation services, MTR fully welcomed the announcement made in the Chief Executive's Policy Address 2022 outlining the development of the "Northern Metropolis" as well as the further extension of Hong Kong's railway network, which is to include three strategic railway projects: the Tseung Kwan O Line Southern Extension, Central Rail Link and Hong Kong-Shenzhen Western Rail Link. These three projects are currently in the public consultation phase as part of RMR2030+ Study. We are also progressing with a construction study on the proposed New Science Park/ Pak Shek Kok Station to be located on the East Rail Line.

Expanding the Property Portfolio

Investment Properties

Our two new shopping malls, The Wai in Tai Wai and THE SOUTHSIDE in Wong Chuk Hang, will expand our existing retail portfolio by nearly 30%. The 60,620-square-metre The Wai will have over 150 retail tenants providing entertainment, leisure and community services for more than 710,000 residents in the Sha Tin district. Fitout work and pre-leasing activities are progressing well in preparation for the mall's opening, which is scheduled for summer 2023. The 47,000-square-metre THE SOUTHSIDE is currently under pre-leasing and is expected to open in the fourth quarter of 2023.

Residential Property Development

During the year, the Company advanced important residential property projects while exploring new development opportunities throughout its extensive rail network. Overall, we have 14 on-going residential property projects in the pipeline that will deliver a supply of approximately 16,000 units for Hong Kong's housing market in the near to medium terms.

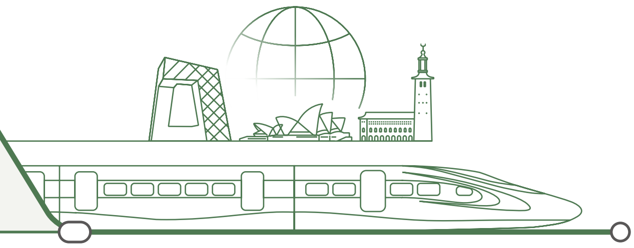
Oyster Bay

In November 2022, we completed the land exchange documents for the existing depot at Siu Ho Wan, which will be transformed into an exciting new development called "Oyster Bay". Subject to tender award, the intake for the first batch of residents is expected in 2030. In all, Oyster Bay will provide about 10,720 private residential units. The public housing units (subsidised housing) will be provided by Government.

Other Potential Property Development Projects

Regarding the property development at Tung Chung East Station, we will start preparation work for the tendering subject to market conditions. Elsewhere, we continue to explore potential sites for development along our existing and future railway lines.

MAINLAND CHINA AND INTERNATIONAL BUSINESSES



In 2022, MTR's Mainland China and international businesses served approximately 1.77 billion passenger journeys outside of Hong Kong through its subsidiaries, associates and joint ventures. Being one of the Company's three strategic pillars, this segment provides environmentally friendly mass transportation services for passengers in Mainland China, Macao, Europe and Australia, offering geographic diversification of revenue and opportunities to build the MTR brand worldwide.

Year ended 31 December HK$ million	Mainland China and International Businesses								
	Mainland China and Macao Railway, Property Rental and Property Management Businesses*			International Railway Businesses			Total		
	2022	2021	Inc./(Dec.) %	**2022**	2021	Inc./(Dec.) %	**2022**	2021	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**2,355**	2,686	(12.3)	**23,661**	22,359	5.8	**26,016**	25,045	3.9
EBITDA	**105**	216	(51.4)	**1,160**	674	72.1	**1,265**	890	42.1
EBIT	**42**	203	(79.3)	**920**	419	119.6	**962**	622	54.7
EBITDA Margin (in %)	**4.5%**	8.0%	(3.5)% pts.	**4.9%**	3.0%	1.9% pts.	**4.9%**	3.6%	1.3% pts.
EBIT Margin (in %)	**1.8%**	7.6%	(5.8)% pts.	**3.9%**	1.9%	2.0% pts.	**3.7%**	2.5%	1.2% pts.
Recurrent Business Profit (Net of Non-controlling Interests)	**28**	**157**	**(82.2)**	**267**	**155**	**72.3**	**295**	**312**	**(5.4)**
Associates and Joint Ventures									
Share of Profit	**640**	**692**	**(7.5)**	**55**	**44**	**25.0**	**695**	**736**	**(5.6)**
Profit/(Loss) Attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses and Impairment Loss)							**990**	**1,048**	**(5.5)**
– Business Development Expenses							**(255)**	(219)	(16.4)
– Arising from Recurrent Businesses (after Business Development Expenses but before Impairment Loss)							**735**	**829**	**(11.3)**
– Impairment Loss on Shenzhen Metro Line 4							**(962)**	–	n/m
– Arising from Recurrent Businesses (after Business Development Expenses and Impairment Loss)							**(227)**	**829**	**n/m**
– Arising from Mainland China Property Development							**67**	66	1.5
– Arising from Underlying Businesses							**(160)**	**895**	**n/m**

n/m: not meaningful

** Excluding the impairment loss of HK$962 million on Shenzhen Metro Line 4 in Mainland China*

Excluding Mainland China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint ventures outside of Hong Kong, contributed a net after-tax profit of HK$735 million in 2022 on an attributable basis, before the HK$962 million impairment provision made for SZL4. This represented a decrease of 11.3% compared with 2021.

In Mainland China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries decreased by 82.2% to HK$28 million in 2022, before the HK$962 million impairment provision made for SZL4. This was primarily due to decreased patronage on SZL4 as a result of the pandemic.

In our international businesses, recurrent business profit from our railway subsidiaries increased by 72.3% to HK$267 million in 2022. This was mainly due to the contribution under the revenue protection mechanism for Melbourne's metropolitan rail service, which took effect in 2022, and the Company's recognition of profit from Sydney Metro City & Southwest as construction progressed. These results were partially offset by operating losses by Stockholms pendeltåg and Mälartåg.

Our share of results from our associates and joint ventures decreased by 5.6% to HK$695 million in 2022, mainly on account of the pandemic in Mainland China, which led to stringent anti-pandemic measures and reduced patronage.

Mainland China and Macao

In Beijing, our associate operates Beijing Metro Line 4, the Daxing Line, Beijing Metro Line 14, the Northern, Middle and Southern sections of BJL16, and the initial section of Beijing Metro Line 17 ("BJL17"). All lines maintained stable operations during the year. The Southern Section of BJL16 successfully opened on 31 December 2022, and the full line is expected to open in 2023. The remaining sections of BJL17 are still under construction.

In Shenzhen, SZL4, including the SZL4 North Extension, is operated by our wholly owned subsidiary. The line maintained stable operations during the year, but as previously stated, there has been no increase in fares for SZL4 since we began operating the line in 2010. We now anticipate that the mechanism and procedures for fare adjustments will take longer to implement, and that patronage will remain at a lower level for longer than expected. We have therefore recognised an impairment provision of HK$962 million for the SZL4 service concession assets during the year. Elsewhere, construction on Shenzhen Metro Line 13 continued to progress, and all the key contracts have been awarded. This line is expected to commence service in 2024.

In Hangzhou, Hangzhou Metro Line 1 ("HZL1"), the Xiasha Extension and Airport Extension as well as Hangzhou Metro Line 5 all achieved stable operations in 2022. HZL1 has been suffering from losses for most of the time during the past several years due to slow growth in patronage. Over the last few years, patronage has been further impacted by the pandemic. As there is no patronage protection mechanism under this concession agreement, the long-term financial viability of this line will be impacted if patronage remains at a low level over a period of time.

MTR operates and maintains Macao's first rapid transit system, the Macao Light Rapid Transit Taipa Line, where train services achieved stable operations during the year.

The Company also develops and manages a number of residential and commercial properties in Mainland China. TIA Mall in Shenzhen and Ginza Mall in Beijing both experienced reduced foot traffic during the year due to the pandemic. Elsewhere, our shopping mall at Tianjin Beiyunhe Station is progressing, with targeted completion after 2024, while our mixed-used TOD project at Hangzhou West Station also continued to progress.

Europe

In the United Kingdom, the concession to operate the Elizabeth line has been extended to May 2025. The Central Operating Section of the line opened in May 2022, and the line achieved stable operations during the year. Our associate operates the South Western Railway, one of the UK's largest rail networks. Services were stable during the year apart from days that were impacted by an industry-wide strike. Under the National Rail Contract that has just been extended by two years till May 2025, the UK Department for Transport retains all revenue risk and substantially all cost risk.

In Sweden, where we are the largest rail operator by passenger volume, we operate four businesses. Stockholm Metro (Stockholms tunnelbana) achieved steady operations during the year. The contract has been extended for a minimum of 18 months and a maximum of 24 months until 2025. MTRX saw patronage gradually return after the lifting of COVID restrictions in February 2022, but there remain challenges in terms of, inter alia, energy costs, and we are studying options as to the way forward for this business. At Mälartåg, we added the Upptåget lines to this regional network in June 2022. Operations of Mälartåg and Stockholms pendeltåg businesses were impacted by a shortage of operational staff and maintenance issues, and we are working hard to improve their financial performance.

Australia

Our subsidiary in Melbourne operating the metropolitan network achieved steady operations in 2022, and we continued to support our client on initiatives to further improve the network. The Sydney Metro North West Line also achieved satisfactory operations during the year. Passenger journeys have reached more than 56 million since this service began in 2019. We continued to make progress on the construction of the Sydney Metro City & Southwest project as well as the manufacturing, testing and commissioning of new, driverless trains.

Growth Outside of Hong Kong

As always, the Company continued to seek growth opportunities in Mainland China and overseas. Discussions regarding transport infrastructure, station commercial and TOD opportunities are on-going in areas including Chengdu and the Greater Bay Area.

FINANCIAL REVIEW

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

Consolidated Profit or Loss

	Year ended 31 December		Favourable/ (Unfavourable) Change	
HK$ million	**2022**	2021	HK$ million	%
Total Revenue	**47,812**	47,202	610	1.3
Recurrent Business Profit[ζ]				
EBIT[#]				
Hong Kong Transport Services				
– Hong Kong Transport Operations	**(4,733)**	(4,262)	(471)	(11.1)
– Hong Kong Station Commercial Businesses	**2,270**	2,488	(218)	(8.8)
Total Hong Kong Transport Services	**(2,463)**	(1,774)	(689)	(38.8)
Hong Kong Property Rental and Management Businesses	**3,800**	4,048	(248)	(6.1)
Mainland China and International Railway, Property Rental and Management Subsidiaries*	**962**	622	340	54.7
Other Businesses, Project Study and Business Development Expenses	**(539)**	(567)	28	4.9
Share of Profit of Associates and Joint Ventures	**1,095**	968	127	13.1
Total Recurrent EBIT (before Impairment Loss)	**2,855**	**3,297**	**(442)**	**(13.4)**
Impairment Loss on Shenzhen Metro Line 4	**(962)**	–	(962)	n/m
Total Recurrent EBIT (after Impairment Loss)	**1,893**	**3,297**	**(1,404)**	**(42.6)**
Interest and Finance Charges	**(1,061)**	(1,045)	(16)	(1.5)
Income Tax	**(361)**	(317)	(44)	(13.9)
Non-controlling Interests	**(314)**	(127)	(187)	(147.2)
Recurrent Business Profit	**157**	**1,808**	**(1,651)**	**(91.3)**
Property Development Profit (Post-tax)				
Hong Kong	**10,413**	9,277	1,136	12.2
Mainland China	**67**	66	1	1.5
Property Development Profit (Post-tax)	**10,480**	**9,343**	**1,137**	**12.2**
Underlying Business Profit[ε]	**10,637**	**11,151**	**(514)**	**(4.6)**
Loss from Fair Value Measurement of Investment Properties (Post-tax)				
Loss from Fair Value Remeasurement on Investment Properties	**(3,076)**	(2,065)	(1,011)	(49.0)
Gain from Fair Value Measurement of Investment Properties on Initial Recognition from Property Development	**2,266**	466	1,800	386.3
Loss from Fair Value Measurement of Investment Properties (Post-tax)	**(810)**	**(1,599)**	**789**	**49.3**
Net Profit Attributable to Shareholders of the Company	**9,827**	**9,552**	**275**	**2.9**

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 the impairment loss of HK$962 million in respect of Shenzhen Metro Line 4 in Mainland China.*

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

n/m: *not meaningful*

Our recurrent business financial performance in 2022 was adversely impacted by the outbreak of the fifth wave of COVID-19 in Hong Kong since the beginning of 2022 and the impairment provision of HK$962 million made in respect of Shenzhen Metro Line 4 in Mainland China. On the other hand, the Group recorded satisfactory property development profit mainly from three of our development projects in Hong Kong.

Total Revenue

The Group's total revenue in 2022 increased slightly by 1.3% to HK$47,812 million when compared to 2021. The increase was mainly contributed by (i) higher revenue from our Melbourne transport operations, (ii) an increase in design and delivery project income from the Sydney Metro City & Southwest project, and (iii) incremental revenue for Hong Kong transport operations ("HKTO") from the full-year operation of the full Tuen Ma Line and the opening of the East Rail Line cross-harbour extension in May 2022, but partly offset by (iv) the impact of unfavourable exchange rates on revenue from our overseas businesses and (v) weaker fare and non-fare revenue from our Hong Kong businesses due to the fifth wave of COVID-19.

The closures of major passenger boundary crossings between Hong Kong and Mainland China in 2022 and various air travel restrictions in place almost throughout the year continued to have material adverse impacts on our Cross-boundary and Airport Express fare, Duty Free Shops and other rental revenue as visitor arrivals remained minimal.

Recurrent Business Profit

The reintroduction and further tightening of anti-pandemic measures at the time when the fifth wave of COVID-19 struck Hong Kong in early 2022 had severely impacted the financial performance of our Hong Kong recurrent businesses, particularly due to a significant decrease in patronage. Outside of Hong Kong, our railway businesses were also adversely impacted by the outbreak of the Omicron variant in Mainland China as well as a shortage of operational staff and maintenance issues in the Nordic region, although these factors were mitigated by improved profit from our Australia businesses.

Besides, the Group recognised an impairment provision of HK$962 million in respect of Shenzhen Metro Line 4 in first half of 2022 resulting from the no fare increase situation as explained in the past.

As a result, the Group's recurrent business profit decreased significantly by 91.3% to HK$157 million in 2022. Excluding the HK$962 million impairment provision, our recurrent profit would have been HK$1,119 million, a decrease of HK$689 million or 38.1% as compared with 2021.

EBIT

HKTO: Significant EBIT loss of HK$4,733 million was recorded in 2022 with the loss widened by HK$471 million when compared to 2021. This was due to decreases in our Domestic patronage and fare revenue after the fifth wave of COVID-19 struck Hong Kong in early 2022. Our patronage in February and March 2022 reduced to the lowest level since the outbreak of COVID-19. Our Domestic patronage started to rebound since late April 2022 following the phased relaxation or lifting of anti-pandemic measures. The adverse impact of the fifth wave of COVID-19 on HKTO EBIT was mitigated by our collective effort in maintaining stringent cost control measures and incremental revenue from the full-year operation of the full Tuen Ma Line and the opening of the East Rail Line cross-harbour extension in May 2022.

HKTO continued to report a significant loss as Cross-boundary Service, High Speed Rail and Intercity patronage remained severely impacted by the closures of boundary crossings between Hong Kong and Mainland China in 2022. Airport Express patronage showed good signs of recovery as international air travel sentiment improved resulting from the new "0+3" quarantine scheme for inbound travellers effective from late September 2022 which was subsequently fully lifted in late December 2022.

Hong Kong station commercial businesses ("HKSC"):
EBIT profit decreased by HK$218 million (8.8%) to HK$2,270 million. HKSC has been significantly impacted by the pandemic since February 2020, when the revenue stream from Duty Free Shops was suspended due to the closure of boundary crossing stations. The decrease in EBIT when compared to 2021 was mainly due to (i) lower advertising revenue as the improved market sentiment from the second half of 2021 turned bearish in 2022, and (ii) lower rental income from negative rental reversions experienced on renewals and new lets, after the outbreak of the fifth wave of COVID-19.

Hong Kong property rental and management businesses:
EBIT profit decreased by HK$248 million or 6.1% to HK$3,800 million. The decrease in EBIT when compared to 2021 was mainly due to negative rental reversions experienced on renewals and new lets in the backdrop of COVID-19.

Mainland China and international railway, property rental and management businesses subsidiaries:
The COVID-19 continued to adversely impact our Mainland China and international businesses subsidiaries to varying degrees, depending on the impact of the pandemic in the different cities in which we operate and the revenue exposure under different business models in such cities. EBIT profit in 2022 increased by HK$340 million (54.7%) to HK$962 million. This was contributed by better performance of our Melbourne transport operation and Sydney Metro City & Southwest project, though it was partly offset by adverse impacts from (i) the shortage of operational staff and maintenance issues in our Nordic businesses, (ii) the pandemic on our Mainland China businesses and (iii) the depletion of government subsidies for Shenzhen Metro Line 4 by late 2022.

Other businesses, project study and business development expenses:
EBIT loss from these businesses was HK$539 million in 2022, compared to the loss of HK$567 million recorded in 2021. The incurred loss was mainly due to service suspension of Ngong Ping 360 during the fifth wave of COVID-19.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures increased by HK$127 million or 13.1% to HK$1,095 million in 2022. This was mainly due to the increase in profit sharing from Octopus Holdings Limited, which resulted from improved consumer sentiments and the spill over effect from the Government Consumption Voucher Scheme, as well as our increased shareholding since early 2022. Profit was partially offset by the COVID-19 outbreaks in Mainland China which adversely impacted our Hangzhou operations.

Impairment Loss on Shenzhen Metro Line 4 ("SZL4")

As we have been warning repeatedly for some time, if a suitable fare increase and adjustment mechanism are not implemented in Shenzhen soon, the long-term financial viability of this line will be impacted. In this connection, an impairment provision of HK$962 million was made in the first half of 2022 for SZL4 as it is anticipated that the mechanism and procedures for fare adjustments will take longer time to implement and patronage will remain at a lower level for a period of time.

Based on the review performed by the Group as at 31 December 2022, no further impairment provision was made.

Total Recurrent EBIT

Total recurrent EBIT before impairment loss decreased by HK$442 million or 13.4% to HK$2,855 million. Including the impairment loss on SZL4 of HK$962 million, total recurrent EBIT decreased by HK$1,404 million (42.6%) to HK$1,893 million.

Income Tax

Income tax increased by HK$44 million or 13.9% to HK$361 million in 2022. This was mainly due to the increased proportion of profit arising in tax jurisdictions with relatively higher tax rates including Australia.

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 2022/2023 amounted to HK$4.6 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. The date of hearing before the Board of Review is scheduled to be held in early 2024. Further details are set out in Note 16 "Income Tax" to the Consolidated Financial Statements.

Property Development Profit (Post-tax)

Property development profit (post-tax) increased by HK$1,137 million to HK$10,480 million in 2022, which was mainly derived from the incomes and share of surplus proceeds of LP10 (LOHAS Park Package 10), SOUTHLAND (THE SOUTHSIDE Package 1) and La Marina (THE SOUTHSIDE Package 2).

Loss from Fair Value Measurement of Investment Properties (Post-tax)

Loss from fair value measurement of investment properties in Hong Kong and Mainland China was HK$810 million in 2022. This comprised (i) a loss of HK$3,076 million from investment property fair value remeasurement after tax, which was partly mitigated by (ii) a gain of HK$2,266 million from fair value measurement of our sharing-in-kind (i.e. The Wai shopping mall) in the second half of 2022.

The loss from investment property fair value remeasurement of HK$3,076 million represents an approximately 3.6% drop against the value as of 31 December 2021. This loss was mainly explained by the continued negative rental reversions recorded in 2022 due to the pandemic.

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$9,827 million in 2022, increase of HK$275 million or 2.9% when compared to the HK$9,552 million recorded in 2021.

Consolidated Financial Position

HK$ million	31 December 2022	31 December 2021	Inc./(Dec.) HK$ million	Inc./(Dec.) %
Net Assets	**179,912**	180,037	(125)	(0.1)
Total Assets	**327,081**	292,082	34,999	12.0
Total Liabilities	**147,169**	112,045	35,124	31.3
Gross Debt^	**47,846**	43,752	4,094	9.4
Net Debt-to-equity Ratio$^{\delta}$	**23.3%**	18.1%		5.2% pts

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

δ: *Net debt-to-equity ratio represents net debt of HK$41,994 million (2021: HK$32,660 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, and investment in bank medium-term notes in the consolidated statement of financial position, as a percentage of the total equity of HK$179,912 million (2021: HK$180,037 million).*

Net Assets

Our financial position remains strong. The Group's net assets decreased slightly by HK$125 million to HK$179,912 million as at 31 December 2022. This was mainly due to 2021 final and 2022 interim ordinary dividend payments and loss in exchange reserves arising from the translation of investments outside Hong Kong due to the unfavourable exchange difference resulting from a stronger Hong Kong dollar, but mitigated by the net profit recognised for the year.

Total Assets

Total assets increased by 12.0% to HK$327,081 million from HK$292,082 million. This was predominantly due to the increase in property development in progress arising from the government grant accounting in relation to the Oyster Bay Project.

Total Liabilities

Total liabilities increased by 31.3% to HK$147,169 million from HK$112,045 million. This was mainly due to the booking of notional deferred income under government grant accounting relating to the Oyster Bay Project. This deferred income will be used to offset the costs for the construction of the new Oyster Bay Station, re-provision of the Siu Ho Wan depot, property enabling works and site formation of the project.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations, and short-term loans) increased by 9.4% to HK$47,846 million as at 31 December 2022. The weighted average borrowing cost of the Group's interest-bearing borrowings increased from 2.2% p.a. in 2021 to 2.5% p.a. in 2022.

Net Debt-to-equity Ratio

Net debt-to-equity ratio increased by 5.2% points to 23.3% as at 31 December 2022 from 18.1% as at 31 December 2021. This was mainly due to an increase in net debts as a result of the land premium paid for the Oyster Bay Project.

Consolidated Cash Flows

HK$ million	Year ended 31 December 2022	2021
Net Cash Generated from Operating Activities	**6,757**	**7,472**
Receipts from Property Development	**14,162**	17,779
Payment of Property Development	**(9,245)**	(1,137)
Fixed and Variable Annual Payments	**(1,010)**	(988)
Other Net Cash Outflow from Investing Activities	**(10,219)**	(8,489)
Net Cash (Used in)/Generated from Investing Activities	**(6,312)**	**7,165**
Net Drawdown/(Repayment) of Debts, Net of Lease Rental and Interest Payments	**4,100**	(7,317)
Dividends Paid to Shareholders of the Company	**(8,562)**	(7,165)
Other Net Cash Outflow from Financing Activities	**(109)**	(49)
Net Cash Used in Financing Activities	**(4,571)**	**(14,531)**
Effect of Exchange Rate Changes	**(710)**	(42)
(Decrease)/Increase in Cash, Bank Balances and Deposits	**(4,836)**	**64**

Net Cash Generated from Operating Activities

Net cash generated from operating activities was HK$6,757 million compared to HK$7,472 million in 2021. This was mainly due to the decrease in operating profit as discussed above.

Net Receipts from Property Development

Net receipts from property development were HK$4,917 million. These comprised (i) cash receipts of HK$14,162 million from THE SOUTHSIDE and LOHAS Park packages, which were offset by (ii) cash payments of HK$9,245 million mainly for Oyster Bay Project.

Other Net Cash Outflow from Investing Activities

Other net cash outflow from investing activities was HK$10,219 million. This mainly included capital expenditure of HK$10,808 million, comprising HK$7,370 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$1,465 million for Hong Kong railway extension projects, primarily initial work for RDS 2014 projects, HK$1,204 million for Mainland China and overseas subsidiaries such as Shenzhen Metro Line 13, and HK$769 million for Hong Kong investment properties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In 2022, we strengthened our commitment to environmental, social and governance ("ESG"), the backbone of our Corporate Strategy, by defining 10 commitments and 35 key performance indicators ("KPIs") across our three environmental and social objectives: GHG Emissions Reduction, Social Inclusion, and Advancement & Opportunities. Throughout the year, we pursued these objectives with a range of initiatives designed to combat climate change and protect the environment while fostering a healthier, more harmonious and inclusive society. As at the end of 2022, many of these KPIs had either been achieved or were on target.

Environmental Aspects

As a leader in environmentally friendly mass transit, MTR is contributing to the fight against climate change by pursuing GHG Emissions Reduction through improved energy efficiency. Following a comprehensive study, we have committed to establishing science-based carbon reduction targets for the year 2030 for our railway and property businesses in Hong Kong with the aim of achieving carbon neutrality by 2050. These 2030 targets, which have been submitted to the Science Based Targets initiative for validation and cover Scope 1, 2 and 3 emissions, will be attained by adopting energy efficiency measures and cleaner energy as well as green and low-carbon building designs.

Social Aspects

Social Inclusion is essential to MTR's function as a global leader in mass transit. In 2022, we promoted accessibility and universal basic mobility by launching "MTR • Care", a new app featuring functions that assist passengers with special needs and the elderly; hosting a series of talks at schools and senior centres on our operations and railway safety; and organising special events designed to provide barrier-free access for appreciation of the arts.

Safety is our number one priority, and it is also key to our efforts to ensure that MTR's services are delivered safely for all. In 2022, the number of reportable events on our heavy rail and light rail networks increased by 7.1%. We continue to use innovation and technology to manage our operational risks. During the fifth wave of COVID-19 in Hong Kong, we implemented a wide range of cleaning and sanitisation initiatives to keep passengers and staff safe during the pandemic. Although the risk posed by COVID-19 to local public health has declined since the end of 2022, we will conduct regular reviews of our health and safety practices to ensure that they are in line with global standards and our own Corporate Safety Policy.

MTR also aims to create opportunities for its communities and business partners. We continued the "'Train' for Life's Journeys" programme, a series of visits and activities for secondary school students featuring career and life planning advice as well as career sharing at MTR. We are also collaborating with Hong Kong Science and Technology Parks and Hong Kong Cyberport to explore opportunities in innovative technologies, data collaboration, and investments in technology ventures and start-ups. In addition, we sponsored the "She Loves Tech 2022" Global Startup Competition and Global Conference for female entrepreneurs.

Governance

Our corporate governance framework supports our ESG initiatives while ensuring ethical and transparent business operations. In 2022, we further strengthened our governance efforts by implementing a new Board Committee structure designed to optimise the decision-making processes of the Board and help achieve the governance goals set out in our Corporate Strategy.

Strong corporate governance is at the heart of our business and decision-making, ensuring that we operate ethically and transparently to safeguard the interests of our shareholders and stakeholders. We were proud to receive a number of well-recognised awards locally and globally during the year, including the "Best Public Service Financial Management Team Hong Kong 2022" and "Most Innovative Transport Solutions Global 2022" awards from Capital Finance International.

To ensure business continuity, strong corporate reputation, legal compliance, and health and safety for customers and staff, we regularly review MTR's enterprise risk management framework and the Company's risk profile, top risks and key emerging risks, including ESG-related risks. Our "three lines of defence" model, which is aligned with international best practice, enhances our governance and risk management practices, including identifying and addressing unmitigated material risks.

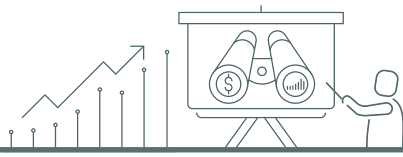
HUMAN RESOURCES

As a good and caring employer, MTR strives to foster Advancement & Opportunities for staff and the communities we serve. We invest significantly in our staff's learning and development by offering a comprehensive range of training programmes. To boost our talent recruitment and retention efforts, we provide competitive pay and benefits, short- and long-term incentive schemes, and a broad range of career development opportunities. We recognise the dedicated work of our staff through a performance-based pay review mechanism as well as a variety of motivational schemes and awards. We also have in place a wide range of policies designed to ensure that MTR is a progressive and family-friendly place to work.

We greatly value the opinions of our staff. Following our most recent Employee Engagement Survey in December 2021, we formulated and implemented follow-up action plans at both the corporate and business unit/ function levels to convey to our staff that they are valued members of the Company and that we are eager to make MTR an even better place to work. In December 2022, we conducted a pulse survey to track our progress with these efforts.

As at 31 December 2022, the Company and its subsidiaries employed 16,804 people in Hong Kong and 15,504 people outside Hong Kong. Our associates and joint ventures employed an additional 20,735 people in Hong Kong and worldwide. In 2022, the voluntary staff turnover rate in Hong Kong was 7.5%.

OUTLOOK



In late December 2022, restrictions on international arrivals to Hong Kong were lifted, and by February 2023, cross-boundary transport channels between Hong Kong and Mainland China had largely resumed. These developments are sure to be a boon for both the Hong Kong economy and MTR. Chinese and international visitors are, historically, one of the contributors to our rail fare revenue and Duty Free non-fare business. As the world transitions towards a more manageable, endemic era of COVID-19, we are hopeful that it spurs an economic recovery where improved consumer sentiment drives the revitalisations of the travel, tourism and retail industries, which would benefit our recurrent businesses. However, expectations in the near term still must be tempered, given the current uncertainty of the global economy, inflationary trends, rising interest rates and heightened geopolitical tensions.

While the railway incidents that occurred in the last quarter of 2022 are concerning, we also view them as important learning opportunities in our quest for continuous improvement as a world-leading provider of mass transit services. We are currently engaged in a comprehensive review of our railway assets and maintenance management, and we will implement recommendations that can strengthen our operations and help prevent similar incidents from happening in the future. New and smart technologies will also continue to play increasingly important roles in our railway operations and maintenance.

In our property development business, subject to market conditions, we anticipate tendering out Oyster Bay Packages 1 and 2 and Tung Chung East Station Package 1 in the next 12 months or so. The three residential developments will offer a total of approximately 4,530 residential units. In addition, we plan to tender out a commercial development site in the Tung Chung East Station property development. Meanwhile, applications for pre-sale consent for THE SOUTHSIDE Package 3, LOHAS Park Package 12, Ho Man Tin Station Package 1, Tin Wing Stop and the Yau Tong Ventilation Building are in progress. Depending on construction and sale progress, we also anticipate booking initial property development profit from LOHAS Park Package 11, THE SOUTHSIDE Package 4 and Ho Man Tin Station Package 2, and booking of gain from fair value measurement from our sharing-in-kind shopping mall THE SOUTHSIDE.

Following the successful opening of the East Rail Line cross-harbour extension, we look forward to continuing our work with Government on RDS 2014 projects for Hong Kong's future railway expansion. We are excited about opportunities to work on Northern Metropolis Development Strategy projects and enhance the city's connectivity with the Pearl River Delta and Greater Bay Area. We will also continue to seek further railway and property development opportunities overseas and in Mainland China.

I would like to take this opportunity to thank Mr Roger Bayliss, who retired from the position of Capital Works Director effective 31 July 2022, and Mr Adi Lau, who retired from the position of Managing Director – Mainland China Business and Global Operations Standards effective 31 December 2022, for their contributions to the Company and its success. I would also like to welcome Mr Carl Devlin, who was appointed as Capital Works Director effective 1 August 2022, and Mr Sammy Wong, who was appointed as Mainland China Business Director effective 1 January 2023.

Despite the difficulties of the past few years, we have done our utmost to keep Hong Kong and many cities around the world moving with safe, accessible and environmentally friendly mass transit services. We have also worked hard to build a company that can succeed in generating shareholder value while creating growth opportunities for individuals and society, in favourable and challenging environments alike. I look forward to working with our Board, management and staff as we move confidently into 2023 and embrace the possibilities of more auspicious times to come.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 9 March 2023

4.45 million
Average Weekday Patronage

1,518.1 million
Total Patronage

99.9%
Passenger Journeys On-time

HONG KONG TRANSPORT SERVICES
TRANSPORT OPERATIONS

AIM

As one of the global leaders in environmentally friendly mass rail transit, MTR connects communities throughout Hong Kong and around the world by providing safe, reliable services that are accessible to everyone. Revenues generated from railway operations help the Company maintain, improve and expand its network for sustainable growth, benefitting passengers and shareholders alike.

CHALLENGES

The fifth wave of COVID-19 affected domestic patronage in the first half of 2022, and cross-boundary patronage remained severely impacted due to continued closures of cross-boundary stations. The pandemic also continued to present operational challenges as MTR strove to protect the health and safety of its passengers and staff. Meanwhile, the Company prepared for the latest regular review of the Fare Adjustment Mechanism ("FAM").

STRATEGIES

During the year, MTR strove to increase domestic fare revenue with special marketing offers and promotions while maintaining service excellence, health and safety. The Company worked around the clock to ensure the successful opening of the much-anticipated East Rail Line cross-harbour extension. We also continued to enhance our network with the latest technologies and innovations while engaging the local community through numerous outreach efforts.

OUTLOOK

While the first half of 2022 saw difficulties brought by the fifth wave of the COVID-19 pandemic, patronage gradually recovered as the situation came under control. Meanwhile, Government's relaxation measures on quarantine and self-monitoring policies for international arrivals has driven patronage for both our domestic network and Airport Express. With the lifting of cross-boundary travel restrictions in January 2023, our Cross-boundary Service and High Speed Rail ("HSR") Service have resumed after being suspended since early 2020.

The opening of the East Rail Line cross-harbour extension in May 2022 completed the Shatin to Central Link and created yet another convenient way that passengers can travel through the city. Moving forward, the Company is ready to work with Government on the next phase of the city's transit infrastructure development, an era that will further enhance connections within the city, support the growth of communities around rail stations in line with Government's strategy of making railways the backbone of public transport, and establish new links with the Greater Bay Area and Mainland China.

Our "Go Smart Go Beyond" campaign continues as we strive to use smart technologies to build more connected and inclusive communities while emphasising sustainable growth and environmental protection. As always, we will spare no effort to continue providing world-class transport operations that are clean, comfortable, accessible and affordable for the millions of passengers who journey along our networks each day.

SAFETY

Safety is and always will remain our number one focus. MTR recorded 880 reportable events throughout its heavy rail and light rail network in 2022, which represents a 7.1% increase compared to 2021. Further details about our safety performance can be found in the Ten-Year Statistics of this Annual Report.

During the year, our Escalator Safety Task Force continued to promote the importance of riding escalators safely to prevent accidents, opening promotional information booths at stations and launching awareness campaigns.

An Elderly Caring Programme will be established to focus on preventing accidents among the elderly. Our Platform Gap Incident Special Task Force promoted platform gap safety by distributing souvenirs to passengers at stations. Smart Junctions were introduced at two Light Rail stops to enhance the safety of trackside works. We also placed smart flashing bollards with flashing yellow strips at the pedestrian crossings of 14 Light Rail locations. Meanwhile, we launched a smart tunnel system at the Tsuen Wan Line; these are also being extended to the East Rail Line.

PATRONAGE AND REVENUE

	Patronage In millions		Revenue HK$ million	
	2022	Inc./(Dec.) %	**2022**	Inc./(Dec.) %
Hong Kong Transport Operations				
Domestic Service	**1,334.6**	(6.1)	**11,245**	1.6
Cross-boundary Service	**0.4**	(11.7)	**4**	(20.0)
High Speed Rail ("HSR")	**–**	n/m	**1,401**	2.8
Airport Express	**3.1**	44.2	**128**	43.8
Light Rail and Bus	**180.0**	(6.3)	**561**	(3.8)
Intercity	**–**	n/m	**–**	n/m
	1,518.1	(6.1)	**13,339**	1.8
Others			**65**	(7.1)
Total			**13,404**	1.7

n/m: not meaningful

MTR rail and bus passenger services recorded 1,518.1 million passenger trips in 2022, representing a year-on-year decrease of 6.1%. Patronage was impacted by the fifth wave of COVID-19 over the first half of the year, although ridership increased from May as the number of cases subsided. Average weekday patronage decreased by 6.3% to 4.45 million passenger trips.

Total patronage for Domestic Service was 1,334.6 million in 2022, a year-on-year decrease of 6.1%. Average weekday patronage for Domestic Service decreased by 6.4% to 3.92 million. The recent reopening of cross-boundary stations between Hong Kong and Mainland China has had a positive impact on our patronage, and cross-boundary patronage in particular will gradually recover.

Patronage at Airport Express was 3.1 million in 2022, representing a 44.2% increase compared to 2021. This was attributed to the gradual relaxation of international air travel restrictions and quarantine requirements in the second half of the year. Following the announcements of these updated Government policies, MTR responded promptly to cater to growing travel demand with increased Airport Express service frequency and promotions.

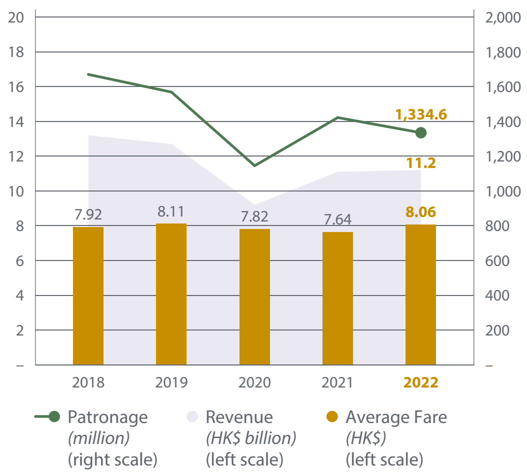
During the year, we launched a number of promotions to drive ridership and make trips on MTR even more affordable and enjoyable. These included offering 100,000 free domestic single journeys for MTR Mobile app users in celebration of the opening of the East Rail Line cross-harbour extension, and launching an MTR Mobile "Instant Win" lucky draw promotion campaign featuring 25,000 prizes per day for three consecutive Tuesday to mark the 25th anniversary of the establishment of the Hong Kong Special Administrative Region.

MARKET SHARE

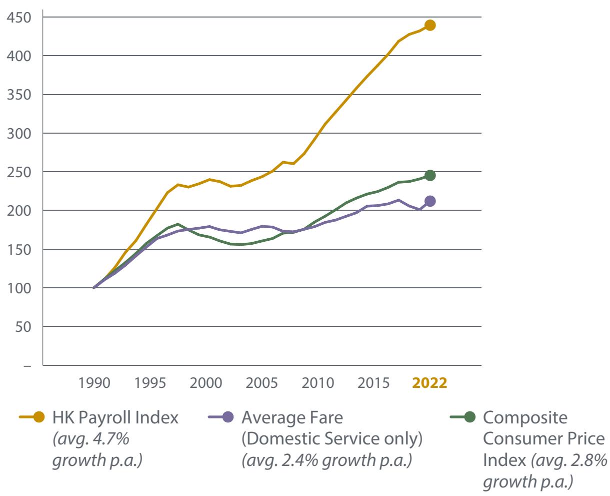
In 2022, our overall share of the franchised public transport market in Hong Kong increased to 48.3% compared to the 47.3% recorded in 2021. This was mainly attributed to additional patronage from the openings of the full Tuen Ma Line in June 2021 and East Rail Line cross-harbour extension in May 2022. Our share of cross-harbour traffic was 70.1% compared to the 67.6% recorded in 2021.

Due to the on-going closures of all boundary crossings that we serve since January 2020, our Cross-boundary and HSR services once again registered 0% market share. Market share to and from the airport was 18.2% compared to 21.6% in 2021, which was mainly due to the denominator effect resulting from a sharp increase in inbound travellers who were under closed-loop quarantine using designated transport vehicles during the most part of the year and thereby unable to use any public transport.

Domestic Service – Patronage and Average Fare



Fare Trend



Overview

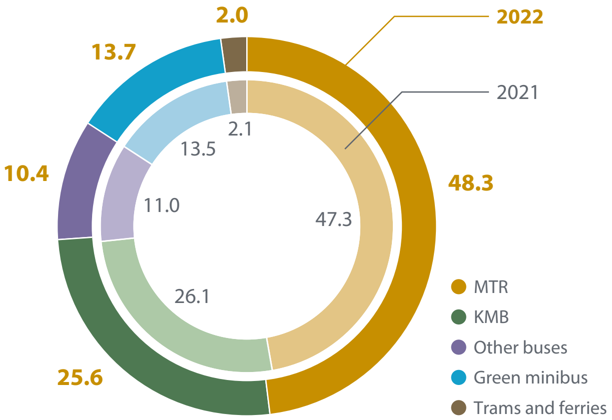
Business Review and Analysis

Corporate Governance

Financials and Other Information

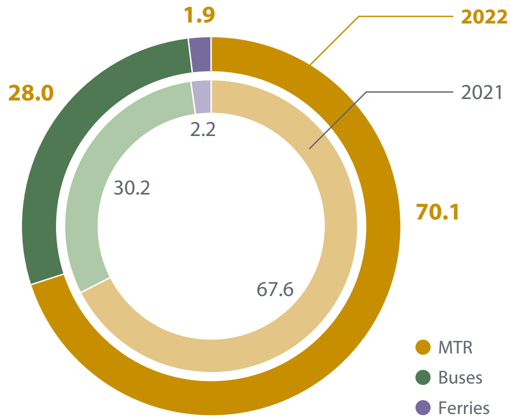
Market Shares of Major Transport Operators in Hong Kong

(Percentage)



Market Shares of Major Transport Operators Crossing the Harbour

(Percentage)



FARE ADJUSTMENTS, PROMOTIONS AND CONCESSIONS

In March 2022, MTR announced there would be no adjustment of fares in 2022/2023 according to the fare adjustment mechanism ("FAM"). Also, the Overall Fare Adjustment Rate, calculated at 0.5%, would be rolled over to 2023/2024. Including the 1.85% fare decrease in 2021/2022, this was the third consecutive year that there was no fare increase under the FAM. We also announced that the special 3.8% fare rebate (0.8% on top of the committed 3.0% rebate under the FAM) would be extended till 31 January 2023, a measure designed to help customers cope with economic difficulties brought by COVID-19.

In addition to the extension of the 3.8% fare rebate, we announced there would be no price adjustments for "Monthly Pass Extras", "MTR City Saver" and the "Tuen Mun – Nam Cheong Day Pass"; the 35%-off "Early Bird Discount Promotion" would be extended until 31 May 2023; and the interchange discount (HK$0.3 or above) for Green Minibuses covering more than 500 designated routes would be continued. In total, these promotions are worth more than HK$600 million for 2022/2023.

To further reduce economic hardship and promote accessibility and inclusivity, we also continued to offer approximately HK$2.1 billion in on-going fare concessions to customers from all walks of life, including commuters, the elderly, children, eligible students and persons with disabilities.

On 20 September 2022, Government launched a three-month public consultation on the review of the FAM. This review seeks to identify a feasible and pragmatic package that will maintain the financial sustainability of the Company while enabling it to take new railway projects forward, cope with increasing expenditures for maintaining the railway system and respond to public concerns regarding fare adjustments. This regular review, which takes place every five years, is expected to be concluded in the first half of 2023. Following the completion of the review, the updated FAM will take effect in June 2023.

SERVICE PERFORMANCE

Passengers rely on MTR for safe, on-time rail transport services, and we are pleased to have reached and exceeded our key performance indicators for the railway network in Hong Kong once again in 2022 despite the challenges of the pandemic. During the year, we attained 99.9% train service delivery and passenger journeys on-time, exceeding the targets set in MTR's Operating Agreement and the Company's own even more demanding Customer Service Pledges. Train service delivery is a measure of the actual train trips run against those scheduled to be run. Passenger journeys on-time is a measure of all passenger journeys completed within five minutes of their scheduled journey times.

In 2022, we made more than 1.64 million train trips on our heavy rail network and more than 0.89 million trips on our light rail network. There were eight delays on the heavy rail network and none on the light rail network, delays being defined as those lasting 31 minutes or more and attributable to factors within the Company's control. The light rail network has faced no such delays since 2019. We place the highest priority on passenger safety, and we closely review all incidents with the objective of preventing similar situations from occurring again.

Our service performance was marred by two incidents during the year. The first, on 13 November, involved a metallic trackside protection barrier coming dislodged and colliding with a Tsuen Wan Line train that was entering Yau Ma Tei Station. As a result, the front wheel axle of the first car came off the rail, and two pairs of train doors were dislocated. MTR promptly submitted the preliminary investigation report to Government to provide information about the cause and handling of the incident and outline follow-up actions. The investigation report performed by the Investigation Panel was made public in January 2023. It revealed that there was serious corrosion at the mounting bolts and nuts of the metallic protection barrier at its base frames on the ground and on the tunnel wall, causing structural instability of the barrier. We are implementing the improvement measures recommended in the report, including upgrading or replacing all metallic protection barriers of a similar nature, implementing specific inspections of all metallic protection barriers, and completing a comprehensive trackside infrastructure and equipment survey, as well as exploring using technology to provide real-time monitoring and alerts for trackside installations. Modifications on trains will be made so that a direct alert from the train will be sent to the Operations Control Centre when the detrainment ramp is operated.

The second incident, on 5 December, a Tseung Kwan O Line train encountered a mechanical failure as it approached Tseung Kwan O Station. It was brought to a stop by the fault-protection mechanism because an abnormal extension of the gangway between the sixth and seventh train cars was detected. The investigation report was made public in February 2023. It concluded that the incident was caused by the detachment of a collar that held the energy absorption device in a secured position within the semi-permanent coupler assembly of the train's sixth car, resulting in the device dislodging internally. Besides inspecting the energy absorption devices removed from inter-car coupler assemblies of the same type, we are implementing the improvement actions recommended in the report, such as adding extra security to collars of the same type for the train fleet by the end of February 2023, requiring the supplier to progressively replace the incident-type energy absorption device with an enhanced design, and exploring the adoption of technology to monitor the device.

As a follow-up to these two incidents, an Expert Panel was set up in December 2022 to conduct a comprehensive review of the Company's railway asset management and maintenance regime with an aim to complete the review and report to the Board in six months. The full report will be submitted to Government.

Operations Performance in 2022

Service Performance Item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line and South Island Line	98.5%	99.5%	**99.8%**
– Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line[1]	98.5%	99.5%	**99.9%**
– Tuen Ma Line[2]	N/A	N/A	**N/A**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line[1]	98.5%	99.0%	**99.9%**
– Tuen Ma Line[2]	N/A	N/A	**N/A**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line and South Island Line	98.0%	99.0%	**99.8%**
– Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line[1]	98.0%	99.0%	**99.9%**
– Tuen Ma Line[2]	N/A	N/A	**N/A**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	850,000	**3,238,124**
– East Rail Line and Tuen Ma Line	N/A	850,000	**8,005,373**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line and Tuen Ma Line	N/A	11,500	**37,079**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line	98.0%	99.0%	**99.9%**
– Tuen Ma Line	98.0%	99.0%	**99.9%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line	97.0%	99.0%	**99.9%**
– Tuen Ma Line	97.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.8%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line	97.0%	99.0%	**99.9%**
– Tuen Ma Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line	98.0%	99.0%	**99.9%**
– Tuen Ma Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line	98.5%	99.5%	**99.9%**
– Tuen Ma Line	98.5%	99.5%	**99.8%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26ºC	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27ºC for platforms and 29ºC for station concourses, except on very hot days	N/A	93.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every two days (on average)	N/A	99.0%	**100%**
Northwest transit service area bus service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**100%**
Passenger enquiry response time within six working days	N/A	99.0%	**100%**

Notes:

1 The performance requirement, customer service pledge target and actual performance result will be available upon completion of two-year revenue operations of the East Rail Line cross-harbour extension, which commenced service on 15 May 2022. The figure reflects January to May only.

2 The performance requirement, customer service pledge target and actual performance result will be available upon completion of two-year revenue operations of the Tuen Ma Line.

MTR conducts regular surveys and research to gauge customer satisfaction levels regarding its services and fares, the results of which are published in the Company's Service Quality Index and Fare Index, respectively.

MTR also belongs to The Community of Metros ("COMET"), which establishes performance benchmarks from urban metro systems around the world with the aim of improving industry best practices. The 2021 COMET benchmarking exercise assessed data from 44 metro systems in 40 cities around the world. Results can be found in the "Performance Metrics" section of our sustainability website.

Service Quality Index	2022	2021
Domestic and Cross-boundary services	**68^**	66^
Airport Express	**N/A***	N/A*
Light Rail	**66**	63
Bus	**73**	74
HSR	**N/A***	N/A*

Fare Index	2022	2021
Domestic and Cross-boundary services	**64^**	62^
Airport Express	**N/A***	N/A*
Light Rail	**65**	61
Bus	**74**	72
HSR	**N/A***	N/A*

^ *This only measured Domestic Service as the Cross-boundary Service of Lo Wu and Lok Ma Chau were closed in both 2021 and 2022.*

* *The Voice of Customer surveys for Airport Express and HSR were suspended from 2020 to 2022 due to the outbreak of the COVID-19 pandemic.*

ENHANCING THE CUSTOMER EXPERIENCE

MTR always strives to "Go Smart Go Beyond", integrating the latest innovations and technologies to improve the customer experience and incorporating sustainability into virtually every aspect of its operations. Such initiatives form a major part of the Company's environmental, social and governance strategy and help make its rail transport services even more comfortable, inclusive and environmentally friendly. MTR also invests heavily to maintain, upgrade and renew the Company's Hong Kong railway system.

Boosting Passenger Convenience

MTR proudly opened the East Rail Line cross-harbour extension on 15 May 2022. This new extension provides passengers with a fourth rail line that crosses Victoria Harbour, offering added choice and convenience for travelling across the city. The project also includes the new Exhibition Centre Station, expansions of Admiralty and Hung Hom stations, and renovated platforms and enhanced facilities along the East Rail Line. After the opening of the East Rail Line cross-harbour extension, about 48,000 hours of travelling time were saved daily for our passengers. The Company celebrated the opening by offering 2,000 people the chance to take the inaugural ride from Exhibition Centre Station to Hung Hom Station and giving away 100,000 free domestic single-journey rides to registered MTR Mobile users.

Greater Comfort for Passengers

New Trains

MTR has ordered 93 new heavy rail eight-car trains as part of its programme to upgrade the fleet by replacing older trains with new models. As at 31 December 2022, the Company had received delivery of a total of 19 new eight-car heavy rail trains. Eight out of the 19 trains received are SACEM Q-trains, which are furnished with equipment for operating under the existing signalling system, and they will also be able to accommodate the new signalling system once that replacement project is completed. Three SACEM Q-trains had been put into service on the Kwun Tong Line by the end of 2022.

Replacement of Signalling System

Signalling replacement is an important asset renewal project. The replacement of our existing signalling system ("SACEM System") by a communication-based train control signalling system ("CBTC System") along the Island, Tseung Kwan O, Kwun Tong and Tsuen Wan lines continued in 2022. During the year, a revised technical proposal for the project was developed using established CBTC software with a range of customised functions that are essential for MTR operations. Once the CBTC System project is completed, train services can be enhanced to increase overall carrying capacity, fulfilling our long-term

operational needs. After undergoing necessary testing and meeting the requirements of relevant Government departments, the new CBTC System is expected to commence service on the Tsuen Wan Line between 2025 and 2026, followed by implementation on the Island, Kwun Tong and Tseung Kwan O lines. Overall project completion is expected between 2028 and 2029.

Replacement of Air Conditioning Systems

In 2022, we completed the last phase of our programme to replace 154 chillers with newer, more energy-efficient models. These replacements are expected to save 15,000 tonnes of CO_2 per annum while delivering increased comfort for station passengers. A new programme to replace 31 more chillers will take place between 2023 and 2026.

New Light Rail Vehicles

The Company has also ordered 40 new light rail vehicles ("LRVs") to replace older vehicles and expand its fleet. As at 31 December 2022, 36 new LRVs had been delivered to Hong Kong and 28 had been put into service. The remaining LRVs are undergoing testing and commissioning.

Enhancing Station Facilities

Enjoyable journeys start at our stations, which is why we work hard to "Care For You Along The Way", ensuring comfort, convenience and easy access throughout these critical customer touchpoints for different types of customers. During the year, we continued to "Go Smart Go Beyond" by opening smart toilet facilities across our network, which provide passengers with digital display information on toilet availability and indoor air quality. In pursuit of our environmental conservation goals, we now offer 18 drinking water dispensers across our network. To improve access and service for the disabled and those with special needs, we have launched a pilot programme for a wheelchair service to escort passengers through the concourses of Sung Wong Toi Station and a dedicated charging socket at Kowloon Tong Station for powered wheelchairs. We also launched a detection system with the Hong Kong Jockey Club to help caretakers find lost passengers with dementia. Elsewhere, we continued our lift and escalator refurbishment programme to improve the comfort and safety of passengers.

Furthering our efforts under our Corporate Strategy to reduce Greenhouse Gas Emissions, we recently embarked upon a programme to replace conventional lighting with energy-saving LED lighting at 65 stations across the city. Contracts have been awarded, and work is expected to finish in 2025. Upon completion, the project is expected to save 10,000 tonnes of CO_2 emission per annum.

We have also launched a "Renewable Energy – Solar Facilities" study to explore the feasibility of installing and operating solar facilities to help further reduce emissions. Panel installation at five stations and depots was completed in early 2023, and contracts for installation at three additional locations were also awarded in 2022. Other locations are currently being reviewed under the feasibility study.

Enhancing Passenger Journeys Through Technology

Smart Mobility

In 2022, MTR continued to "Go Smart Go Beyond" with a host of innovations designed to improve customer service and enhance the customer experience. In early 2022, we made it possible for customers to travel in our network via QR codes ticketing at gates, adding the widely used payment platforms WeChat Pay and UnionPay options for extra convenience. In May, we launched the new "e-Store", an online shopping platform; extended the "Next Train" function to provide real-time train arrival time and car loading information for the East Rail Line; and introduced "Cross-Harbour Easy", a display at the concourse and interchange platform of Admiralty Station that shows real-time traffic and train frequency along the Tsuen Wan Line and East Rail Line platforms to help passengers select the best route and save time on their cross-harbour journeys.

There are now more than 1.75 million monthly users with MTR Mobile, accessing the app to take advantage of its useful functions and receive news about the Company's latest promotions. As at 31 December 2022, there were more than 1.3 million members of the MTR Points loyalty scheme, which enables users to earn points and redeem them for various ticketing offers and a wide range of gifts.

In November 2022, we were proud to introduce "MTR • Care", an app that offers smart functions to cater to the needs of the elderly and passengers with special needs. Phase 1 features a simplified version of "Trip Planner" as well as an "In-station Navigation" function at Exhibition Centre Station for the visually impaired. We are also exploring further additions to MTR • Care, including a portable ramp booking service for mobility-impaired passengers, a "call for assistance" function for the hearing-impaired and the provision of real-time information on station lift operations.

Smart Operations and Maintenance

We also continued to employ the latest technologies to enhance the operations and maintenance of our trains and railways and ensure safe, reliable passenger transport.

The SACEM Remote Monitoring and Alarm Detection ("AI SACEM") platform, co-developed with Alibaba Cloud using artificial intelligence, streams fault log data via telecommunication, enabling us to analyse, predict and respond to faults earlier. This platform has been installed in our Operation Control Centre, Data Studio and three depot control centres thus far. Elsewhere, we are trialling a Smart Depot Control Centre to provide an integrated console that can help staff oversee depot operations in regard to the health of our train and track assets.

Data analytics is another important area where technology enables us to deliver caring service to our customers. With the help of big data, we have been able to deliver more than 300 targeted communications programmes regarding customer service, safety, marketing and more. In addition, we can further understand the needs of our customers through data analysis, and in turn facilitate the formulation and enhancement of our customer service strategy, continuously improving the overall customer experience in smart mobility.

In April 2022, MTR became the first global transport operator to join The Sandbox metaverse, a leading decentralised virtual gaming world. With this collaboration, we are building a railway-focused, immersive virtual space to create a fun new way of interacting with our customers, especially the younger generations.

1,568
Station Shops with 68,664 square metres

43,186
Advertising Units

5G
Data Access in 75 Stations

HONG KONG TRANSPORT SERVICES
STATION COMMERCIAL BUSINESSES

AIM

We aim to provide high-quality retail, advertising and telecommunications services throughout our network, bringing value to our customers, business partners as well as shareholders.

CHALLENGES

- **Station Retail**

  In the wake of the COVID-19 pandemic, we continue to deal with dampened consumer sentiment and reduced foot traffic, which have combined to impact tenant operations and place downward pressure on rental revenue.

- **Advertising**

  The ever-changing pandemic situation and the weakened local and global economy caused advertising revenue to decline as advertisers closely monitored spending.

- **Telecommunications**

  Increased customer demand for faster connections and wider coverage across the MTR network continue to place pressure on the upgrading of infrastructure.

STRATEGIES

- **Station Retail**

  To offset the effects of the pandemic and economic downturn, we continued to offer flexible and/ or shorter-term leases to build tenant relationships and help their businesses recover. Promotions via our MTR Mobile app and MTR Points loyalty programme were launched to help attract customers and drive spending. Reviews of our tenant mix were carried out to drive rental revenue and ensure that our retail offerings are up to date.

- **Advertising**

  We continued with the digital transformation of our advertising platforms while designing competitive sales packages and flexible, target audience-centric packages, including innovative online-plus-offline ("O+O") campaign offerings.

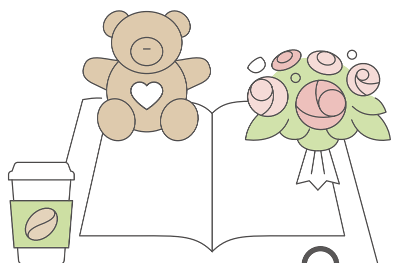
- **Telecommunications**

  We made solid progress during the year in our efforts to plan a new commercial telecom network that can support more 5G services and faster mobile communications for customers.

OUTLOOK

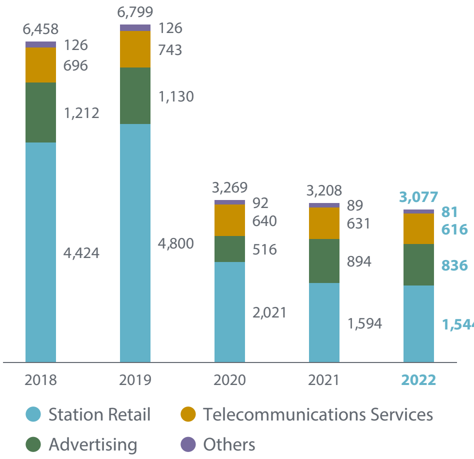
Station retail rental revenue is likely to stay under pressure due to negative rental reversions. To drive rental revenue at our stations in what continues to be a challenging operating environment for tenants, we will keep optimising our retail mix to ensure that it is fresh and in line with what our customers want and expect. Meanwhile, our Duty Free business has resumed after the reopening of cross-boundary stations in early 2023, but its performance is expected to be impacted compared to the past by contracts that were renewed in adverse market conditions, and it will also be dependent on patronage and turnover levels.

Recent trends have shown a modest recovery in advertising revenue, although this business is still highly susceptible to changes in the economic environment and their effects on consumer sentiment and spending, as the first six months of 2022 demonstrated. In line with our commitment to leverage technology and innovation for future growth, we will continue to expand our digital advertising capabilities and build our 5G telecommunication network to drive revenue and meet passengers' expectations.



Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



Total revenue from Hong Kong station commercial activities decreased by 4.1% to HK$3,077 million in 2022. This was mainly due to the impact of the fifth wave of COVID-19, which led to lower spending by advertisers and lower rental revenue from negative rental reversions.

STATION RETAIL

In 2022, negative reversions on renewed rentals and new lets contributed to a decrease in revenue from station shop rentals of 3.1% to HK$1,544 million. In response, we offered tenants flexible and/ or shorter-term leases, particularly for small and medium tenants; reviewed the tenant mix to drive rental revenue and keep retail offerings up to date; and brought in new brands to attract customers. Rental relief was offered to tenants on a case-by-case basis following the fifth wave of COVID-19 in the early part of the year. Rental reversion and average occupancy rates for our station kiosks were -14.6% and 97.3%, respectively.

During the year, we launched several promotions for station shops via MTR Mobile and MTR Points, leveraging large user bases to drive campaigns such as “MTR Shops Stamp Reward”, which was designed to stimulate spending at station shops (especially during the roll-out of Government’s Consumption Voucher Scheme). In April and October 2022, we distributed MTR Shops cash coupons to passengers via promotional campaigns to encourage spending. We also unveiled new shop posters at stations to showcase new brands at MTR Shops.

Our Duty Free business was impacted by the on-going closure of cross-boundary stations. In early 2023, Duty Free business resumed with the reopening of cross-boundary stations. However, its performance is expected to be impacted as compared to the past by the contracts that were renewed in adverse market conditions, and it will be dependent on patronage and turnover levels.

As at 31 December 2022, the lease expiry profile of our station kiosks (including Duty Free shops) by area occupied was such that approximately 36% will expire in 2023, 24% in 2024, 35% in 2025, and 5% in 2026 and beyond.

In terms of trade mix, food and beverage accounted for approximately 46% of the leased area of our station kiosks (excluding Duty Free shops) as at 31 December 2022, followed by cake shops at 15%, convenience stores at 15%, passenger services at 10% and others at 14%.

As at 31 December 2022, there were 1,568 station shops occupying 68,664 square metres of retail space, representing an increase of 18 shops and 385 square metres of lettable space, respectively, when compared with 31 December 2021. This was mainly due to the opening of new shops at Exhibition Centre Station.

To help non-governmental organisations and social enterprises provide services for the community, we rent them certain station shops along the Tuen Ma Line at nominal rates. In 2022, a total of 10 station shops were leased on this basis.

ADVERTISING

Revenue from advertising decreased by 6.5% to HK$836 million in 2022. This was due to the dampened economic outlook disrupting consumption-related activities and impeding the momentum of a rebounding advertising market. MTR's enhanced O+O and Out-of-Home (i.e., outdoor advertising display) offerings helped the Company capitalise under the volatile advertising market.

As at 31 December 2022, the number of advertising units in stations and trains had decreased to 43,186. This was primarily due to the fact that the new nine-car trains along the East Rail Line have less in-train card space, resulting in a reduced number of in-train tube cards.

Throughout the year, we continued our progress in transforming our media to digital advertising platforms, launching new digital formats and increasing the number of digital panels across our network. We promoted flexible packages targeting specific audiences via our audience-targeting and media-selling platform. MTR was also proud to be the first metro in Asia to offer programmatic Digital Out-of-Home trading and launch Hong Kong's first metaverse online-to-offline ("O2O") campaign on Out-of-Home media, leveraging the occasion of the 25th anniversary of the establishment of the HKSAR.

In 2022, MTR provided free advertising space to 68 non-profit organisations to help them promote their services.

TELECOMMUNICATIONS

In 2022, MTR's revenue from telecommunications decreased by 2.4% to HK$616 million. 5G services were available in 75 stations by the end of the year. We also issued a tender for a new commercial telecom system at 24 stations that can support more 5G services and provide even faster data throughput. Following the opening of a co-developed data centre service in Tseung Kwan O in February 2022, we are exploring opportunities for additional data centres.

Managing Over

118,000

Residential Units

14 Projects to Supply Approximately

16,000

Residential Units to the Market

14

Shopping Malls in our Portfolio

2

Shopping Malls Under Development

HONG KONG PROPERTY AND OTHER BUSINESSES

AIM

Our property business, which includes the development, management and rental of high-quality residential and commercial projects, contributes to the growth of integrated and inclusive communities, creates opportunities for local businesses, and generates shareholder value.

CHALLENGES

- **Property Rental**
  Rental revenues continued to be impacted by COVID-19 – particularly during the fifth wave of the pandemic in the first half of the year – due to reduced tourism, negative rental reversions and rental concessions for tenants.
- **Property Management**
  Our property management services continued to face challenges related to statutory changes in licensing, procurement and maintenance.
- **Property Development**
  COVID-19 continued to disrupt the global economy and create fluctuations in capital flow, inflation and interest rates.

STRATEGIES

- **Property Rental**
  To drive mall traffic, encourage spending and increase rental values, we launched promotional campaigns and targeted marketing promotions via our MTR Mobile app. We also continued to assist small and medium enterprises with rental concessions and flexible lease arrangements while continuously reviewing our retail mix.
- **Property Management**
  We strove to deliver world-class property management services that safeguarded the health and safety of our residents, tenants and customers; emphasised sustainability and green initiatives to reduce our carbon footprint; and continued to seek cost-efficiency wherever possible.
- **Property Development**
  We continued to leverage our integrated "rail plus property" development model to appeal to buyers seeking high-quality units. Meanwhile, we continued to explore new development opportunities along our railway lines and deliver existing projects on time, within budget and to the highest possible standards.

OUTLOOK

Although pandemic and economic conditions improved over the second half of the year, the outbreak of the fifth wave of COVID-19 in early 2022 demonstrated that the situation is still fluid. Restrictions on international air travel have eased in late 2022 and cross-boundary stations reopened in January 2023, which could bring more tourists to Hong Kong and provide modest boosts to mall traffic and retail spending.

To help our mall tenants through the pandemic and increase the rental value of our commercial properties, we will continue to leverage targeted marketing and online-to-offline campaigns that drive footfall and spending at shops. Our MTR Points programme is also becoming an increasingly popular platform to engage members and deepen customer loyalty. As always, we will regularly review our retail portfolio to ensure it is aligned with current trends and demand. We also look forward to the opening of the two new shopping malls, The Wai and THE SOUTHSIDE, in 2023.

Subject to market conditions, in the next 12 months or so, we expect to tender out Oyster Bay Packages 1 and 2 and Tung Chung East Station Package 1. These three residential developments will offer a total of approximately 4,530 residential units. In addition, we plan to tender out a commercial development site in the Tung Chung East Station property development. In property pre-sales, applications for pre-sale consent for THE SOUTHSIDE Package 3, LOHAS Park Package 12, Ho Man Tin Station Package 1, Tin Wing Stop and the Yau Tong Ventilation Building are all in progress. Subject to construction and sale progress, we also anticipate booking initial property development profit from the LOHAS Park Package 11, THE SOUTHSIDE Package 4 and Ho Man Tin Station Package 2, and booking of gain from fair value measurement from our sharing-in-kind shopping mall THE SOUTHSIDE.

PROPERTY RENTAL

In 2022, property rental revenue decreased by 5.5% year on year to HK$4,525 million, as rental revenue suffered from the pandemic's dampening effects on mall traffic and rental reversions. We also continued to offer rental concessions for tenants, which are granted on a case-by-case basis.

For the year, MTR shopping malls recorded a rental reversion of -9.0% and an average occupancy rate of 99%. The Company's 18 floors in Two International Finance Centre had an average occupancy rate of 94%.

As at 31 December 2022, the lease expiry profile of our shopping malls by area occupied was such that approximately 36% will expire in 2023, 30% in 2024, 17% in 2025, and 17% in 2026 and beyond.

In terms of trade mix, as at 31 December 2022, food and beverage accounted for approximately 28% of the leased area of our shopping malls, followed by services at 24%, fashion, beauty and accessories at 21%, leisure and entertainment at 18%, and department stores and supermarkets at 9%.

As at year-end, the Company's attributable share of investment properties in Hong Kong was 256,890 square metres of lettable floor area for retail properties, 39,451 square metres of lettable floor area for offices and 19,634 square metres of property for other use.

In 2022, the on-going closures of cross-boundary stations between Hong Kong and Mainland China continued to have an adverse impact on mall traffic and spending and, by extension, mall rental values. In response, we launched a series of tactical promotional programmes via our MTR Mobile app to encourage consumers to spend at MTR Malls. Of particular note were "Click & Grab" coupon promotions, which generated buzz among the public and a high volume of earned media coverage, and our "Catch the Rewards" online-to-offline campaign. We also rolled out targeted marketing campaigns that appealed to specific groups of shoppers according to behaviours and preferences to boost customer acquisition and stimulate spending. Other innovative promotional campaigns included Chinese New Year Markets, "Fun Family Farming" events and an Organic Farmers' Market.

A new retail programme, "LOUDER", was launched in September 2022 to help small local brands of design and handcraft build their businesses through this online-to-offline platform. This initiative is part of our efforts to drive our New Growth Engine and support MTR's sustainable business growth and environmental, social and governance objectives by creating opportunities for small local businesses to grow alongside the Company.

Investment Property Portfolio in Hong Kong (as at 31 December 2022)

Location	Type	Lettable floor area *(sq. m)*	No. of parking spaces	Company's economic interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping Centre Car Park	39,331 –	– 993	100% 100%
Telford Plaza II 7 – 8/F, Kowloon Bay, Kowloon	Shopping Centre	2,397	–	100%
Telford Plaza II 3 – 6/F, Kowloon Bay, Kowloon	Shopping Centre Car Park	18,253 –	– 136	100% 100%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping Centre Car Park	11,094 –	– 651	100% 100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping Centre Wet Market Kindergarten Car Park	15,410 1,216 2,497 –	– – – 415	100% 100% 100% 100%
Maritime Square 1, Tsing Yi	Shopping Centre Kindergarten Car Park Motorcycle Park	28,597 920 – –	– – 220 50	100% 100% 100% 100%
Maritime Square 2, Tsing Yi	Shopping Centre Car Park Motorcycle Park	6,448 – –	– 65 21	100% 100% 100%
The Lane, Hang Hau	Shopping Centre Car Park Motorcycle Park	2,629 – –	– 16 1	100% 100% 100%
PopCorn 2, Tseung Kwan O	Shopping Centre Car Park	8,456 –	– 50	100% 100%
PopCorn 1, Tseung Kwan O	Shopping Centre Car Park Motorcycle Park	12,174 – –	– 115 16	50% 50% 50%
G/F, No. 308 Nathan Road, Kowloon	Shop Unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop Unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten Car Park	540 –	– 126	100% 100%
International Finance Centre ("ifc"), Central, Hong Kong – Two ifc – One and Two ifc	 Office Car Park	 39,451 –	 – 1,308	 100% 51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car Park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising Signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop Unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor Sports Hall	13,512	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop Unit	1,096	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car Park Motorcycle Park Park & Ride	– – –	54 10 450	100% 100% 100%
Elements, No. 1 Austin Road West, Kowloon	Shopping Centre Car Park	45,510 –	– 898	81% 81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach Terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping Centre Car Park	7,720 –	– 67	100% 100%
Royal Ascot, Fo Tan	Residential Car Park	2,784 –	– 20	100% 100%
Ocean Walk, Tuen Mun	Shopping Centre Car Park	6,083 –	– 32	100% 100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping Centre Car Park	9,022 –	– 421	100% 100%
Hanford Plaza, Tuen Mun	Shopping Centre Car Park	1,924 –	– 22	100% 100%
Retail Floor and 1 – 6/F., Citylink Plaza, Shatin	Shopping Centre	12,154	–	100%
The Capitol, LOHAS Park, Tseung Kwan O	Shop Unit Residential Care Home for the Elderly	391 2,571	– –	100% 100%

Investment Property Portfolio in Hong Kong (as at 31 December 2022) *(continued)*

Location	Type	Lettable floor area *(sq. m)*	No. of parking spaces	Company's economic interest
Le Prestige, LOHAS Park, Tseung Kwan O	Kindergarten	800	–	100%
	Car Park	–	2	100%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Shop Unit	154	–	100%
	Kindergarten	708	–	100%
	Car Park	–	5	100%
Hemera, LOHAS Park, Tseung Kwan O	Kindergarten	985	–	100%
The LOHAS, Tseung Kwan O	Shopping Centre	27,804	–	100%
	Kindergarten	1,141	–	100%
	Car Park	–	333	100%
	Motorcycle Park	–	33	100%
MONTARA, LOHAS Park, Tseung Kwan O	Car Park	–	162	100%
SEA TO SKY, LOHAS Park, Tseung Kwan O	Car Park	–	52	100%
MARINI, LOHAS Park, Tseung Kwan O	Kindergarten	729	–	100%
	Car Park	–	103	100%

All properties are held by the Company and its subsidiaries under Government Leases for over 50 years except for:

- *Telford Plaza I and II, Luk Yeung Galleria, Maritime Square 1 and 2, New Kwai Fong Gardens, ifc, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza, where the Government Leases expire on 30 June 2047*
- *Choi Hung Park & Ride where the Government Lease expires on 11 November 2051*
- *The Lane where the Government Lease expires on 21 October 2052*
- *PopCorn 2 where the Government Lease expires on 27 March 2052*
- *LOHAS Park where the Government Lease expires on 15 May 2052*
- *Citylink Plaza where the Government Leases expire on 1 December 2057*
- *The Shop Units and Kindergarten of The Riverpark where the Government Lease expires on 21 July 2058*

Properties Held for Sale (as at 31 December 2022)

Location	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,026*	–	40%
	Car Park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car Park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	420**	–	1%
	Car Park	–	12	1%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Kindergarten	1,299	–	50%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle Park	–	4	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle Park	–	24	70%
Wings at Sea and Wings at Sea II, LOHAS Park, Tseung Kwan O	Residential	1,258**	–	20.1%
	Car Park	–	95	20.1%
	Motorcycle Park	–	2	20.1%
MALIBU, LOHAS Park, Tseung Kwan O	Residential	–	–	47%
	Car Park	–	28	47%
LP6, LOHAS Park, Tseung Kwan O	Residential	237**	–	63.3%
	Car Park	–	183	63.3%
	Motorcycle Park	–	–	63.3%
MARINI, GRAND MARINI and OCEAN MARINI, LOHAS Park, Tseung Kwan O	Residential	150**	–	38%
LP10, LOHAS Park, Tseung Kwan O	Residential	14,867**	–	20.0%
	Car Park	–	178	20.0%
	Motorcycle Park	–	19	20.0%
The Palazzo, No. 28 Lok King Street, Shatin	Retail	2,000	–	55%
	Car Park	–	9	55%
	Motorcycle Park	–	5	55%
Festival City, No. 1 Mei Tin Road, Shatin	Car Park	–	69	100%
Lake Silver, No. 599 Sai Sha Road, Shatin	Car Park	–	2	92.88%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Car Park	–	2	87%
THE PAVILIA FARM I, No. 18 Che Kung Miu Road, Shatin	Residential	925**	–	68.3%
	Car Park	–	120	68.3%
	Motorcycle Park	–	15	68.3%
THE PAVILIA FARM II, No. 18 Che Kung Miu Road, Shatin	Residential	765**	–	68.3%
	Car Park	–	206	68.3%
	Motorcycle Park	–	24	68.3%

* *Lettable floor area*
** *Saleable area*

In line with our commitment to sustainability, green practices and reducing our carbon footprint, we continuously adopt initiatives that help us meet the robust environmental commitments set out in our Corporate Strategy. Moreover, due to the pandemic, we have been further reducing our energy use across our investment property portfolio over the past two years. As conditions return to normal, we shall be setting new reduction targets along with our other environmental, social and governance key performance indicators. Further information about our environmental efforts can be found in our Sustainability Report 2022.

EXPANDING THE RETAIL PORTFOLIO

Our two new malls are expected to add nearly 30% to the attributable GFA of our existing retail portfolio as at 31 December 2022.

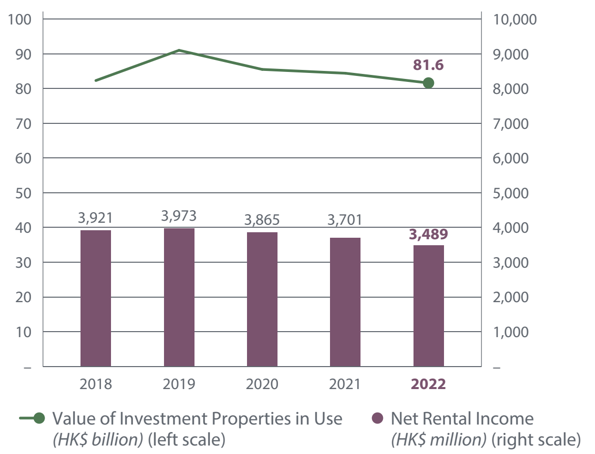
The Wai

The new 60,620-square-metre (GFA) shopping centre The Wai is located at Tai Wai Station. It will have over 150 retail tenants providing entertainment, leisure and community services for more than 710,000 residents in the Sha Tin district. Fitout work and pre-leasing activities are progressing well for the scheduled opening in the summer of 2023.

THE SOUTHSIDE

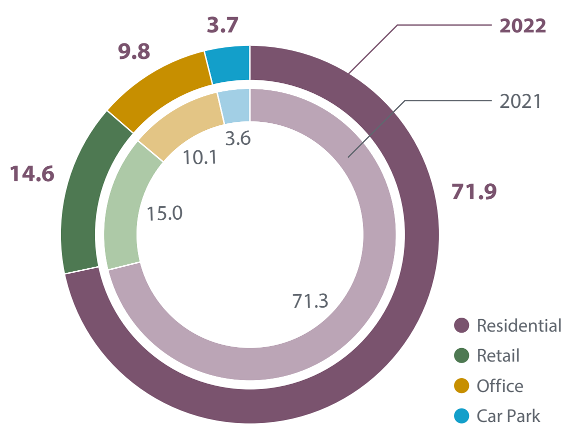
Superstructure works are currently underway for THE SOUTHSIDE, our new 47,000-square-metre (GFA) mall at Wong Chuk Hang. The mall is currently under pre-leasing and is expected to open in the fourth quarter of 2023.

Investment Properties in Hong Kong



Distribution of Hong Kong Property Management Income

(Percentage)



PROPERTY MANAGEMENT

Property management revenue in Hong Kong increased by 2.0% to HK$254 million compared to 2021. As at 31 December 2022, MTR managed more than 118,000 residential units and over 820,000 square metres of office and commercial space in Hong Kong.

PROPERTY DEVELOPMENT

Hong Kong property development profit (post-tax) for 2022 was HK$10,413 million, mainly derived from LP10 (LOHAS Park Package 10), SOUTHLAND (THE SOUTHSIDE Package 1) and La Marina (THE SOUTHSIDE Package 2).

Pre-sales

The Company's property development business once again achieved satisfactory performance in 2022 despite the difficulties presented by the fifth wave of the pandemic in the first half of the year.

Property Development Projects	Units Sold as at 31 December 2022
LP10 (LOHAS Park Package 10)	89% of 893 units
Villa Garda I (LOHAS Park Package 11)	79% of 592 units
Villa Garda II (LOHAS Park Package 11)	22% of 644 units
SOUTHLAND (THE SOUTHSIDE Package 1)	78% of 800 units
La Marina (THE SOUTHSIDE Package 2)	83% of 600 units

Pre-sales of SOUTHLAND, La Marina and LP10 continued during the year, while pre-sales of Villa Garda I and II were launched in June and July 2022, respectively. Pre-sales consents were obtained for IN ONE – Phase IA, Phase IB and Phase IC (Ho Man Tin Station Package 2) and THE SOUTHSIDE Package 4 Phase 4A and Phase 4B.

Pre-sales and sales activities for West Rail property development projects, where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), also continued during the year. As at 31 December 2022, 99% of 1,050 units were sold at Cullinan West, 99% of 1,188 units were sold at Cullinan West II and 95% of 1,172 units were sold at Cullinan West III. At The YOHO Hub Phase 1 (Yuen Long Station), 43% of 1,030 units were sold. Pre-sale consent for The YOHO Hub Phase 2 has been obtained. Pre-sales for GRAND MAYFAIR I and GRAND MAYFAIR II (Kam Sheung Road Station Package 1) were launched in April and May 2022, with 99% of 715 units and 82% of 805 units sold, respectively. Pre-sale consent has been obtained for GRAND MAYFAIR III.

Pre-sales remain temporarily suspended at THE PAVILIA FARM III (Tai Wai Station Phase 3) due to the issue with concrete quality. We continue to work with New World Development Company Limited ("the developer") to ensure that the project meets its design and statutory requirements, and that the developer addresses the interests of affected purchasers.

Property Tendering

In April 2022, we awarded the Pak Shing Kok Ventilation Building property development project to a consortium formed by New World Development Company Limited and China Merchants Land Limited. In July 2022, the Tung Chung Traction Substation property development project was awarded to a subsidiary of Chinachem Group. Three tender submissions for Oyster Bay Package 1 were received in February 2023. However, we decided not to accept any of the tender submissions as none of them met our minimum requirements, and we will retender the project in due course subject to market conditions.

Future Development

The Company currently has 14 residential property projects under development, which are expected to deliver a supply of approximately 16,000 quality units to the market.

Oyster Bay

We have completed land exchange documents for the Siu Ho Wan Depot in November 2022 and will proceed with the proposed development, which has been named "Oyster Bay". Adjacent to the future Oyster Bay Station, Oyster Bay will be developed in phases. Subject to tender award, the intake for the first batch of residents is expected in 2030. In all, Oyster Bay will provide about 10,720 private residential units with a total GFA of about 860,500 square metres, comprising about 826,000 square metres for private residential purposes and 34,500 square metres for commercial purposes. The public housing units (subsidised housing) will be provided by Government.

Other Potential Property Development Projects

For the Tung Chung Line Extension, subject to market conditions, we will start preparation work for the tendering of the Tung Chung East Station property development sites. For the Tuen Mun South Extension, the rezoning proposal for a mixed-use development at Area 16 has been agreed by the Town Planning Board in June 2022 and is now going through the statutory Outline Zoning Plan amendment procedure.

We continue to explore the development potential of stations and associated railway facilities along our existing and future railway lines and will engage in further discussions with Government regarding the financing arrangements of these projects to ensure that we can continue meeting the needs of new railway projects and community developments.

Property Development Packages Completed during the year and awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Great Eagle Group	Residential	69,000	December 2016	By phases in 2024
IN ONE	Chinachem Group	Residential	59,400	October 2018	By phases in 2024
LOHAS Park Station					
LP10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	Completed in 2022
Villa Garda	Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	88,858	April 2019	By phases in 2024
Package 12	Wheelock and Company Limited	Residential	89,290	February 2020	2026
Package 13	Sino Land Company Limited, Kerry Properties Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	143,694	October 2020	2026
Tai Wai Station					
THE PAVILIA FARM	New World Development Company Limited	Residential	190,480	October 2014	Phase I and II completed in 2022 Phase III to be confirmed
		Retail	60,620*		Completed in 2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2024
Wong Chuk Hang Station (THE SOUTHSIDE)					
SOUTHLAND	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	Completed in 2022
La Marina	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	Completed in 2022
Package 3	CK Asset Holdings Limited	Residential Retail	92,900 47,000	August 2018	By phases from 2023 to 2025
Package 4	Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited	Residential	59,300	October 2019	2025
Package 5	New World Development Company Limited, Empire Development Hong Kong (BVI) Limited, CSI Properties Limited and Lai Sun Development Company Limited	Residential	59,100	January 2021	2026
Package 6	Wheelock Properties Limited	Residential	46,800	April 2021	2027
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Pak Shing Kok Ventilation Building					
Pak Shing Kok Ventilation Building	New World Development Company Limited and China Merchants Land Limited	Residential	27,006	April 2022	2031
Tung Chung Traction Substation					
Tung Chung Traction Substation	Chinachem Group	Residential	87,288	July 2022	2031
Kam Sheung Road Station#					
GRAND MAYFAIR	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	By phases from 2024 to 2025
Yuen Long Station#					
The YOHO Hub	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	By phases from 2022 to 2023

\# *as a development agent for the relevant subsidiaries of KCRC*
* *excluding a bicycle park with cycle track*
^ *including a 24-hour pedestrian walkway and a covered landscape plaza*

Property Development Packages to be Awarded[1]

Location	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
Oyster Bay	Residential Retail Kindergarten	826,000 30,000 4,500	2023 – 2036	2030 – 2042
Tung Chung East Station[2]	Residential Retail Office Kindergarten	456,600 60,000 110,000 1,800	2023 – 2026	2030 – 2034

Notes:
1 *Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.*
2 *These property development packages are subject to review in accordance with land grant conditions and completion of statutory processes.*

West Rail Line Property Development Plan

The Company acts as development agent for the West Rail property projects.

Station/Site	Site Area (hectares)	Actual/Expected tender award date	Actual/Expected completion date
Property Development Packages Awarded			
Tuen Mun	2.65	August 2006	By phases from 2012 to 2014
Tsuen Wan West (TW7)	2.37	September 2008	2014
Nam Cheong	6.18	October 2011	By phases from 2017 to 2019
Long Ping (North)	0.99	October 2012	2017
Tsuen Wan West (TW5) Cityside	1.34	January 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	August 2012	2018
Tsuen Wan West (TW6)	1.38	January 2013	2018
Long Ping (South)	0.84	June 2013	2019
Yuen Long	3.91	August 2015	By phases from 2022 to 2023
Kam Sheung Road Package 1	4.17	May 2017	By phases from 2024 to 2025
	28.12		
Property Development Packages to be Awarded			
Kam Sheung Road Package 2	About 5.17	2024 – 2025	2031 – 2032
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	28.73		
Total	**56.85**		

OTHER BUSINESSES

Ngong Ping 360

Revenue for the Ngong Ping Cable Car and its associated theme village ("Ngong Ping 360") decreased by 19.4% to HK$83 million during 2022, while visitation decreased by 16% to 0.39 million. This was largely due to the effects of the fifth wave of COVID-19 in the first half of 2022, which resulted in the suspension of the cable car service for nearly four months.

To maintain brand exposure and keep the attraction top of mind among the public, we organised virtual live tours during the suspension period – including a behind-the-scenes tour of the cable car garage – and hosted STEM classes for students in collaboration with a local education group. Upon resumption of service, we launched an array of promotional and seasonal events, including the "360° Metaverse Experience", "Ngong Ping Mid-Autumn Lantern Festival", "NP360 Glamping Christmas" event and many more. The brand-new cabin "Crystal+" was launched in early December, and a series of communications and marketing activities were launched to raise public awareness.

Octopus

In 2022, MTR's share of profit from Octopus Holdings Limited ("OHL") increased by 72.4% to HK$400 million, resulting from improved consumer sentiment and the spillover effect from the Government Consumption Voucher Scheme as well as our increased shareholding of OHL since early 2022. As at 31 December 2022, more than 90,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation were 20.7 million, while average daily transaction volume and value were 14.1 million and HK$342.6 million, respectively.

The Company now holds approximately 64% of OHL shares after acquiring approximately 6.6% of the shares from New World First Bus and Citybus on 24 January 2022.

Completion of the
Shatin to Central Link

Oyster Bay Station and **Tung Chung Line Extension**
entered into Project Agreements

Schemes of
Tuen Mun South Extension and **Kwu Tung Station**
were authorised under the Railways Ordinance

HONG KONG NETWORK EXPANSION

AIM

We are committed to expanding our network and supporting our "Hong Kong Core" strategic pillar by developing, designing and constructing new railway projects that enhance connections between communities and deliver safe, reliable, affordable, accessible and environmentally friendly mass transit services for all.

CHALLENGES

Following the completion of the Shatin to Central Link, we are in the midst of Hong Kong's next phase of railway development, including important projects under Railway Development Strategy 2014 ("RDS 2014"), the Northern Metropolis Development Strategy and other strategic railway projects.

Apart from challenges on the availability of sufficient labour in Hong Kong's construction sector, each of our new railway projects has its own technical difficulties and challenges to be addressed, including works needing to be carried out at night during non-traffic hours.

STRATEGIES

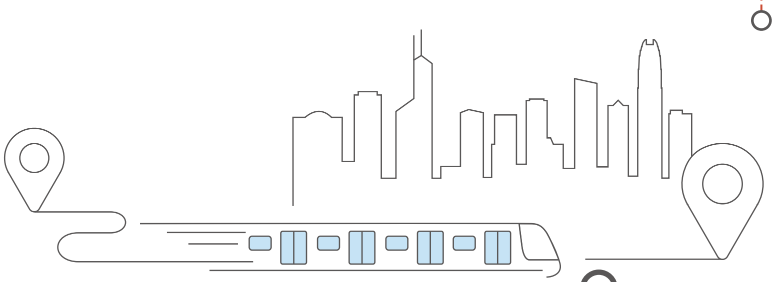
We continue to "Go Smart Go Beyond" by leveraging cutting-edge innovation and technology to enhance our project design, construction and management, delivering high-quality railway networks for communities and securing important projects that ensure MTR's sustainable future growth and success.

OUTLOOK

With the completion of the Shatin to Central Link, which signified the conclusion of a major phase of railway network growth in Hong Kong, we are now moving forward to the next phase of the city's infrastructural development.

We continue to advance a number of projects under RDS 2014. On 28 February 2023, the Company entered into a Project Agreement with Government for the Tung Chung Line Extension, which will enhance the connectivity of North Lantau and support the growth of communities around rail stations in line with Government's strategy of making railways the backbone of public transport.

Other projects under RDS 2014, including the Tuen Mun South Extension, the new Kwu Tung Station on the East Rail Line, the Northern Link, and the new Hung Shui Kiu Station on the Tuen Ma Line, are at various stages and are progressing satisfactorily. We are also excited to be taking part in discussions and preparations regarding potential projects under the Policy Address 2022 and Government's Northern Metropolis Development Strategy.



Service commenced for the East Rail Line cross-harbour extension in May 2022, signifying the completion of the Shatin to Central Link. This extension offers another convenient option for passengers to travel throughout the city and provides a fourth rail line spanning Victoria Harbour.

Meanwhile, works continued on several projects under RDS 2014, which guides Hong Kong's future railway expansion. Preparations are also underway for the initiatives under Government's Northern Metropolis Development Strategy and strategic railway projects recommended under the Strategic Studies on Railways and Major Roads Beyond 2030 ("RMR2030+ Study").

SHATIN TO CENTRAL LINK

The 17-km Shatin to Central Link, a project managed by the Company on behalf of Government, has enhanced the railway network in Hong Kong by offering passengers more choices and reduced travel times when travelling between Hong Kong Island and Central Kowloon and the Northeast New Territories. The first phase of the Shatin to Central Link, the 11-km Tai Wai to Hung Hom Section, opened with the commissioning of the full Tuen Ma Line in June 2021.

The second phase, the 6-km Hung Hom to Admiralty Section, comprised the new Exhibition Centre Station and the expanded Admiralty and Hung Hom stations. After the Company signed the agreements with Government and KCRC on the operation of the East Rail Line cross-harbour extension for a concession period of 10 years on 10 May 2022, passenger service has commenced on 15 May 2022. The East Rail Line now covers 46 km and offers interchanges with five other railway lines, connecting communities across the city more seamlessly than ever.

BUILDING THE FUTURE OF HONG KONG RAILWAY NETWORK

Oyster Bay Station

On 23 September 2022, MTR entered into a Project Agreement with Government for the financing, design, construction, operation and maintenance of a new Oyster Bay Station. The station will be located at Siu Ho Wan between Sunny Bay and Tung Chung stations on the Tung Chung Line. Planning and design work of the station has commenced. Construction is expected to commence in 2023, and the project is targeted for completion in 2030.

RDS 2014

In 2022, we continued to advance several important projects supporting Government's RDS 2014 framework for the development of Hong Kong's rail network.

Tung Chung Line Extension

On 28 February 2023, the Company entered into a Project Agreement with Government for the financing, design, construction, operation, and maintenance of the Tung Chung Line Extension. This agreement also covers the construction of the Airport Railway Extended Overrun Tunnel. The Tung Chung Line Extension project will be funded by the financial contribution from the "Rail plus Property" development model and the Company's internal resources. With the Project Agreement in place, the tendering for the key contracts of

the Tung Chung Line Extension will be completed soon, after which the project will proceed to the construction stage. It is expected that the construction of the Tung Chung Line Extension will commence in mid-2023 for targeted completion in 2029, while the construction of the Airport Railway Extended Overrun Tunnel is targeted to commence in 2025 for completion in 2032.

Other Projects

The scheme for the Tuen Mun South Extension – a 2.4-km extension of the Tuen Ma Line from the existing Tuen Mun Station to a new terminus at Tuen Mun South via a proposed intermediate station between Tuen Mun Station and the new Tuen Mun South Station – was authorised under the Railways Ordinance in June 2022. Construction is anticipated to commence in 2023, and completion is targeted for 2030.

The scheme for Kwu Tung Station, a new station that will be located between Lok Ma Chau and Sheung Shui stations on the East Rail Line, was authorised under the Railways Ordinance in November 2022. Construction is targeted to commence in 2023 for completion in 2027. Meanwhile, we are making progress on the preliminary design of the Northern Link main line, which will connect the Tuen Ma and East Rail lines via the new Kwu Tung Station and three intermediate stations. Construction on the Northern Link is targeted to commence in 2025 and be completed in 2034.

Reference design works continue for Hung Shui Kiu Station, which will be located on the Tuen Ma Line between Tin Shui Wai and Siu Hong stations to serve the growing Hung Shui Kiu/ Ha Tsuen New Development Area. The scheme for the Hung Shui Kiu Station was gazetted under the Railways Ordinance in February 2023.

Apart from challenges on the availability of sufficient labour in Hong Kong's construction sector, each of these projects has its own technical difficulties and challenges to be addressed, including works needing to be carried out at night during non-traffic hours.

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 Tuen Mun South Extension, Northern Link/ Kwu Tung Station 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 model, may be deployed to ensure commercial returns on the Company's investments.

For the South Island Line (West) and North Island Line, we are working closely with Government to address various technical matters and comments.

Policy Address 2022 and Northern Metropolis Development Strategy

The Chief Executive's 2022 Policy Address proposed further extension of Hong Kong's railway network as well as plans for long-term land development. In particular, Government intends to take forward the three strategic railway projects recommended in the RMR2030+ Study: two new local railway projects, the Tseung Kwan O Line Southern Extension and the Central Rail Line connecting Kam Tin in Yuen Long with Kowloon Tong via Kwai Chung; and the Hong Kong – Shenzhen Western Rail Link project linking Hung Shui Kiu and Qianhai in Shenzhen.

The Policy Address also outlined plans to develop the Northern Metropolis as the foundation for Hong Kong's strategic future growth. We have submitted a technical proposal to Government on the Northern Link Spur Line, and we have appointed a consultant to carry out a technical study on the construction of a new Science Park/ Pak Shek Kok Station on the East Rail Line between University Station and Tai Po Market Station as well as the use of the station site and its adjoining land to provide more residential units and auxiliary facilities. Existing MTR works related to the Northern Link main line and Hung Shui Kiu Station projects are progressing to help facilitate these developments.

As always, MTR will offer its expertise in developing and operating world-class railway networks for Hong Kong's sustainable development.

12
Railway Services in
4 Countries

3,321 km
Operating Route Length
Outside of Hong Kong

1.77 billion
Total Patronage
Outside of Hong Kong

MAINLAND CHINA AND INTERNATIONAL BUSINESSES

AIM

Our Mainland China and international businesses, together representing one of our Corporate Strategy's three core pillars, enable us to diversify our revenue streams across multiple geographies, generating shareholder value while building the MTR brand as one of the world's leading providers of environmentally friendly mass transit.

CHALLENGES

Strict anti–COVID-19 measures during most of 2022 in Mainland China once again placed pressure on patronage and revenue. Meanwhile, we continued to face increasing competition as well as challenges related to varying investment and operating models in both the Mainland China and international markets.

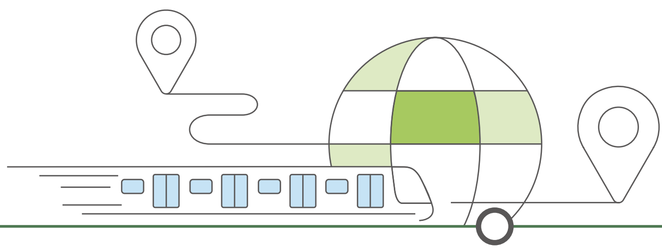
STRATEGIES

During the year, MTR continued to explore new transit-oriented development ("TOD") opportunities in Mainland China, the Greater Bay Area, Europe and Australia, and the further diversification of its revenue streams through asset replacement, maintenance and public-private partnership ("PPP") infrastructure development opportunities – all while retaining existing contracts by providing consistently excellent service.

OUTLOOK

Overall, our Mainland China and international businesses continue to represent a major part of our Corporate Strategy and future growth. To maximise their potential, we will continue to explore new opportunities in Mainland China and overseas that will help us expand our geographic footprint and widen our revenue streams. Meanwhile, we will strive as always to deliver quality railway construction, operations and maintenance services for our existing businesses.

Patronage has been gradually returning following the easing or lifting of pandemic restrictions, but the extent to which it impacts revenue is dependent on the business models of different contracts. A number of concessions have been extended, and a number of new railway lines are targeted for completion soon; thus, they should begin generating revenue for the Company in the near term and beyond.



MTR constructs, operates and maintains world-class railway networks in some of the world's largest and fastest-growing markets, including Mainland China, Macao, Europe and Australia. In 2022, our subsidiaries, associates and joint ventures served a total of approximately 1.77 billion passengers, averaging approximately 5.6 million per weekday outside of Hong Kong. It also develops, rents and manages a host of residential and commercial properties in Mainland China.

RAILWAY BUSINESSES IN MAINLAND CHINA

Beijing

In Beijing, our associate operates Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14"), the Northern, Middle and Southern sections of Beijing Metro Line 16 ("BJL16"), and the initial section of Beijing Metro Line 17 ("BJL17"). The average on-time performance of these lines in 2022 was 99.9%, and all achieved stable operations during the year. With waves of COVID-19 in the Mainland necessitating the reintroduction of anti-pandemic measures, patronage was substantially impacted.

Beijing Metro Line 4 and the Daxing Line

BJL4 and the Daxing Line together recorded approximately 212 million passenger trips and average weekday patronage of 675,000, representing year-on-year decreases of 33% and 31%, respectively.

Beijing Metro Line 14

In 2022, BJL14 recorded approximately 163 million passenger trips and average weekday patronage of approximately 534,000, representing year-on-year decreases of 19% and 18%, respectively.

Beijing Metro Line 16

In 2022, the Northern and Middle sections of BJL16 recorded combined passenger trips of approximately 37 million and average weekday patronage of approximately 122,000. The Southern section of BJL16 commenced passenger service in December 2022. This new 14.3-km section contains 10 stations and connects to the Northern and Middle sections, enhancing our network in Beijing and providing passengers with more commuting options. Construction on the remaining sections of BJL16 continued during the year, and the full line is expected to open in 2023.

Beijing Metro Line 17

In its first full year of operation, the Southern (initial) Section of BJL17 recorded approximately 11 million passenger trips and average weekday patronage of approximately 35,000. This 15.8-km, seven-station section serves residents living in the southeast of the city. The remaining sections of BJL17 are still under construction.

Shenzhen

Shenzhen Metro Line 4

Shenzhen Metro Line 4 ("SZL4") is operated by our wholly owned subsidiary. During the year, both SZL4 and the SZL4 North Extension maintained stable operations and on-time train service performance of 99.9%. Patronage decreased by 21% year on year to 149 million passengers, while average weekday patronage was 451,000.

As previously stated, there has been no increase in fares for SZL4 since we began operating the line in 2010. We now anticipate that the mechanism and procedures for fare adjustments will take longer to implement, and that patronage will remain at a lower level for longer than expected. We have therefore recognised an impairment provision of HK$962 million for the SZL4 service concession assets during the year.

Shenzhen Metro Line 13

During the year, construction on Shenzhen Metro Line 13 continued to progress with all key contracts awarded. The line is expected to commence service in 2024.

Hangzhou

Hangzhou Metro Line 1 and its Extensions

Hangzhou Metro Line 1 ("HZL1") and its extensions, the Xiasha Extension and Airport Extension all achieved stable operations in 2022. Patronage of these lines decreased by 17% year on year to 221 million, while average weekday patronage was 639,000. On-time train service performance remained at 99.9%.

HZL1 has been suffering from losses for most of the time during the past several years due to slow growth in patronage. Over the last few years, patronage has been further impacted by the pandemic. As there is no patronage protection mechanism under this concession agreement, the long-term financial viability of this line will be impacted if patronage remains at a low level over a period of time.

Hangzhou Metro Line 5

In 2022, total patronage of Hangzhou Metro Line 5 ("HZL5") increased by 0.5% to 187 million, while average weekday patronage was 583,000. HZL5's Baoshanqiao Station opened on 1 April 2022.

PROPERTY BUSINESSES IN MAINLAND CHINA

Shenzhen

As at 31 December 2022, 30 out of the remaining 32 flats at the Tiara, the residential development located at SZL4 Depot Site Lot 1, had been sold. The Tiara has a total developable GFA of approximately 206,167 square metres and a retail centre of about 10,000 square metres by GFA.

Foot traffic at TIA Mall remained impacted by COVID-19 and anti-pandemic measures. The mall's average occupancy rate was 56%.

Beijing

Foot traffic at Ginza Mall continued to be impacted by COVID-19. The mall's average occupancy rate was 61%.

Tianjin

Construction of the shopping mall at Tianjin Beiyunhe Station is in progress and is expected to be completed after 2024.

Hangzhou

Construction of the Hangzhou West Station TOD project continued to make good progress during the year. The project is a mixed-use property development with a total developable GFA of about 688,210 square metres. The Company has 10% equity interest in the project.

MACAO

MTR operates and maintains the Macao Light Rapid Transit Taipa Line, Macao's first rapid transit system. MTR is also providing project management and technical support services for the Taipa Line Extension to Barra, the Seac Pai Van Line and Hengqin Line.

EUROPE RAILWAY BUSINESSES

United Kingdom

Elizabeth Line

The Central Operating Section of the Elizabeth line owned by Transport for London ("TfL") opened on 24 May 2022, one week following a ceremonial event attended by Queen Elizabeth II. Our wholly owned subsidiary was awarded the concession by TfL to operate the service starting from 2015 (initially under the "TfL Rail" brand name), and it also manages 28 of the line's 41 stations. The concession agreement has now been extended by two years to May 2025. The Company's financial interest is reasonably protected as this concession carries no fare revenue risk.

Overall, the Elizabeth line achieved stable operations during the year. In November 2022, the Elizabeth line integrated services from the east and west into new central tunnels and stations, enabling direct services from Reading and Heathrow to Abbey Wood and from Shenfield to Paddington. Services also increased to 22 trains per hour during peak hours and expanded to seven days a week in the Central Operating Section.

South Western Railway

Our associate operates the South Western Railway franchise, one of the largest rail networks in the UK, achieving stable operations outside of days that were impacted by an industry-wide strike. The National Rail Contract that was signed in May 2021 for a two-year term has now been extended for another full two-year period till May 2025 on the existing terms. Under this agreement, the UK Department for Transport retains all revenue risk and substantially all cost risk.

Sweden

MTR is the largest rail operator in Sweden by passenger volume. The Company operates four rail businesses in the country via wholly owned subsidiaries.

Stockholm Metro (Stockholms tunnelbana)

Stockholm Metro maintained steady operations during the year. Our contract for this service has been extended for a minimum of 18 months and a maximum of 24 months until 2025.

MTRX

MTRX is an intercity service between Stockholm and Gothenburg. Although the pandemic significantly impacted ticket revenue in early 2022, patronage gradually began to return following the lifting of COVID-19 restrictions in February 2022. However, there remain challenges in terms of, inter alia, energy costs, and we are studying options as to the way forward for this business.

Stockholms pendeltåg

The Stockholm commuter rail service (Stockholms pendeltåg) serves the greater Stockholm area. Operations during the year were challenging due to a shortage of operational staff and maintenance issues, and we are working hard to improve its financial performance.

Mälardalen Regional Traffic (Mälartåg)

The Mälartåg regional traffic service connects Stockholm with all major towns in the Mälardalen region. We took over the operations of Mälartåg regional traffic from December 2021. With the conclusion of the legal challenge by competing bidders, the interim agreement has reverted to an eight-year agreement with the possibility of a one-year extension. We also took over the Upptåget lines in June 2022. Performance for Mälartåg regional traffic during the year was also affected by a shortage of operational staff and maintenance issues. We are working hard to improve its financial performance.

AUSTRALIA RAILWAY BUSINESSES

Melbourne's Metropolitan Rail Service

The Melbourne metropolitan rail network, operated by our subsidiary, achieved stable operations despite anti-pandemic measures that continued to affect patronage, particularly in the first half of the year. We continue to support our client on initiatives to further improve the network. This concession has been extended by 18 months to mid-2026.

Metro North West Line in Sydney

MTR is a member of the Northwest Rapid Transit ("NRT") Consortium and is responsible for the delivery of the PPP contract, including design, financing and construction, of the Metro North West Line as well as its on-going operations and maintenance. During the year, the line achieved satisfactory operations. Patronage remained impacted by the pandemic, but there is no fare revenue risk according to the terms of this franchise. There have been more than 56 million passenger journeys since the service began in 2019.

Sydney Metro City & Southwest Project

The NRT Consortium has the PPP contract for the delivery of new metro trains and core rail systems as well as the operation and maintenance of the combined Metro North West Line and Metro City & Southwest Line until 2034. In 2022, we continued to make progress on the construction as well as the manufacturing, testing and commissioning of new, driverless trains for the Sydney Metro City & Southwest project despite pandemic-related challenges to material and talent flow. Since November 2022, new trains were gradually introduced on the Metro North West Line.

GROWTH OUTSIDE OF HONG KONG

To support our Mainland China and international businesses, we constantly strive to identify and pursue growth opportunities outside of Hong Kong that enable us to diversify our revenue streams, build the MTR brand, and bring environmentally friendly mass transit services to more and more people around the world. In 2022, we continued to discuss transport infrastructure, station commercial and TOD opportunities in areas including Chengdu and the Guangdong – Hong Kong – Macao Greater Bay Area. We also continue to explore growth prospects overseas.

Mainland China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise/Expected Date of Commencement of Operation	Franchise/ Concession Period	Total Number of Stations	Route Length *(km)*
Mainland China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	September 2009	30 years	24	28
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	End together with BJL4 concession	11	22
Beijing Metro Line 14 ("BJL14")	49%	PPP	Full Line: by phases from May 2013 to December 2021	30 years from December 2015	Full Line: 37[1]	Full Line: 50.8
Beijing Metro Line 16 ("BJL16")	49%	Phase 1,2 and 3: O&M Concession Full Line: PPP	Phase 1: December 2016 Phase 2: December 2020 and December 2021 Phase 3: December 2022 Full Line: Targeted 2023	Phase 1, 2 and 3: till full line opens Full Line: 30 years	Phase 1, 2 and 3: 28[1] Full Line: 30	Phase 1, 2 and 3: 46.2 Full Line: 49.5
Beijing Metro Line 17	49%	O&M Concession	Phase 1: December 2021 Subject to local government arrangement	20 years from December 2021	Phase 1: 7 Full Line: 21	Phase 1: 15.8 Full Line: 49.7
Shenzhen Metro Line 4 ("SZL4")	100%	Build-Operate-Transfer[2]	Phase 1 and 2: by phases from July 2010 to June 2011	30 years	Full Line: 15	Full Line: 20.5
SZL4 North Extension	100%	O&M Concession	October 2020	End together with SZL4 concession	8	10.8
Shenzhen Metro Line 13	83%	PPP	2024	30 years	16	22.4
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25 years	25[3]	35.6[3]
HZL1 Xiasha Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
HZL1 Phase 3 (Airport Extension)	49%	O&M Concession	December 2020	End together with HZL1 concession	5	11.2
Hangzhou Metro Line 5 ("HZL5")	60%	PPP[4]	Initial Section: June 2019 Latter Section (Included West Extension): April 2020	25 years	40[5]	58.2
Macao						
Macao Light Rapid Transit Taipa Line	100%	O&M Service Contract	December 2019	80 months	11	9.3
Europe						
Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8 years till 2023, 2 years extension till 2025	41	128
South Western Railway, United Kingdom	30%	O&M Concession[5]	May 2021	2 years till 2023, 2 years extension till 2025	210	998
Stockholm Metro, Sweden	100%	O&M Concession	November 2009	8 years till 2017, 6 years extension till 2023 and 1.5 – 2 years extension till 2025[6]	100	108
MTRX, Sweden	100%	Open Access Operation	Initial service: March 2015 Full schedule: August 2015	Operating license is subject to renewal	10	462
Stockholm commuter rail, Sweden	100%	O&M Concession	December 2016	10 years	54	247
Mälartåg, Sweden	100%	O&M Concession	December 2021	8 years	45	1,060
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	8 years till 2017, 7 years extension till 2024 and 18 months extension till 2026	222	432
Sydney Metro North West Line	Mixed	PPP (Operations, Trains & Systems)	May 2019	15 years	13	36
Sydney Metro City & Southwest Line	Mixed	PPP (Operations, Trains & Systems)	Target in 2024	10 years after service commencement	18	30

Notes:

1 *BJL14 Phase 2 East Section has 12 stations, 11 opened and one bypassed currently. BJL14 Phase 3 Middle Section has 13 stations, ten opened and three bypassed currently. BJL16 Phase 2 has eight stations, six opened and two bypassed currently. BJL16 Phase 3 has ten stations, nine opened and one bypassed currently.*

2 *SZL4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010. SZL4 North Extension assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited was granted operations and maintenance.*

3 *HZL1 Linping Section became an independent operation under Hangzhou Metro Line 9 in July 2021.*

4 *HZL5 West Extension is out of PPP scope.*

5 *One station of HZL5 is under construction.*

6 *In December 2021, public transport authority decided to extend this contract for a minimum of 18 months and a maximum of 24 months.*

111

Volunteering Projects Organised

HK$16.2 million

Donated and Sponsored to Charitable and Other Organisations

Setting **Science-Based Targets** for 2030 and achieving **Carbon Neutrality** by 2050

ENVIRONMENTAL & SOCIAL RESPONSIBILITY

MTR's success has been built on the clear vision, purpose and values that steer our corporate behaviour and guide us toward achieving business results. We also recognise that corporate responsibility is crucial to maintaining our position as a conscientious business that contributes to the development of society.

MTR's rail and property services form integral parts of people's lives and fulfil our purpose to "keep cities moving". Our sustainability efforts, underpinned by our sustainable financial model, focus on ensuring safe, reliable, accessible and environmentally friendly operations throughout these services and all aspects of our business. The Company's Corporate Strategy, "Transforming the Future", ensures sustainable long-term growth according to robust environmental, social and governance ("ESG") principles, operational excellence and innovation. We are striving to foster an even stronger sense of corporate responsibility throughout our organisation as we address our communities' ever-changing societal and environmental needs and work together towards a better future.

We have published a Sustainability Report every year for the past two decades to keep stakeholders up to date on our sustainability performance. The Sustainability Report fulfils the disclosure requirements of the Hong Kong Stock Exchange ESG Reporting Guide and is prepared in accordance with Global Reporting Initiative Standards. The Sustainability Report contains an Independent Assurance Report prepared by an external auditor, who performed limited assurance in relation to certain sustainability performance data. We also produce a separate sustainability website which, in addition to the Sustainability Report itself, provides details of our approach to sustainability and serves as a focal point of the Company regarding sustainability information.

Our management approach to sustainability is overseen by the Board's Environmental & Social Responsibility Committee (formerly known as the Corporate Responsibility Committee), which provides strategic guidance and reviews our sustainability practices and performance. Please also refer to the "Environmental & Social Responsibility Committee" section of this Annual Report's "Corporate Governance Report" (pages 108 to 109) for its principal responsibilities. Our Environmental & Social Responsibility Steering Committee (formerly known as the Corporate Responsibility Steering Committee) supports our sustainability efforts by providing direction on responsible business practices and fostering collaboration across all business units and functions.

KEEP CITIES MOVING SUSTAINABLY

Our Corporate Strategy outlines a business development approach guided by strong ESG principles to create value for all our stakeholders. It sets forth three environmental and social objectives to strive for further enhancement of the Company and the communities where it operates: GHG Emissions Reduction, Social Inclusion, and Advancement & Opportunities. Ten commitments further define the areas in which we strive to make a difference. Our Key Performance Indicators ("KPIs") also establish clear areas of emphasis for each commitment, giving focus to our efforts to achieve meaningful results.

3 ENVIRONMENTAL AND SOCIAL OBJECTIVES AND 10 COMMITMENTS

Social Inclusion

As a provider of public transport services for all, social inclusion lies at the very heart of who we are and what we do

Contribute to the following United Nations Sustainable Development Goals ("UN SDGs"):

Commitments

1 Universal Basic Mobility

2 Diversity & Inclusion

3 Equal Opportunities

Advancement & Opportunities

As we fulfil our vision to connect and grow communities, we create opportunities for others to develop themselves and grow alongside us

Contribute to the following UN SDGs:

Commitments

4 Employees

5 Business Partners

6 Future Skills & Innovation

GHG Emissions Reduction

As a low-carbon transport provider, we are committed to managing our environmental footprint and achieving carbon neutrality

Contribute to the following UN SDGs:

Commitments

7 Carbon Emissions

8 Clean Energy and Energy Efficiency

9 Waste Management

10 Green and Low-carbon Designs

SOCIAL INCLUSION

Universal Basic Mobility

To promote universal basic mobility, we launched a social inclusion app, "MTR • Care", in November 2022 to serve the elderly and people in need. More features are planned to be introduced in the coming year. We also continued to communicate with non-governmental organisations ("NGOs") to better understand the mobility needs of different services users and made improvements to our age- and people with disabilities friendly facilities at new and existing stations.

Safety First

Our number one priority is the safety of our customers, colleagues and business partners. Fostering a safety-first culture throughout our operations helps ensure safe and healthy environments in our trains, stations and properties and enhances the accessibility and inclusivity of our services.

Our Corporate Strategic Safety Plan has been updated for 2021-2024 under the four-year review cycle with our path to Zero Harm defined. The Plan guides all our business areas to continue effectively managing safety and maintaining safety performance excellence in support of our growth and global expansion. It sets out our safety goals and strategic focus areas, enabling a systematic way to meet our safety objectives across all our business units, subsidiaries and associates, both in Hong Kong and around the world. We also use the "Three Lines of Defence" model for enhanced safety governance.

To promote our safety-first culture, we evolved the traditional safety month to a year-long "Corporate Safety Campaign". We invited participation from colleagues in Hong Kong and our global hubs in activities that strengthen our safety culture and enable the sharing of safe practices corporate-wide. We created innovative initiatives to enhance engagement and interactions with our businesses, such as the Global Safety Hackathon and Global Safety and Health Conference, to share expertise and build a stronger proactive safety culture for the MTR community globally.

For details on how we enhance customer safety, please refer to the "Hong Kong Transport Services – Transport Operations" section (page 38) of this Annual Report.

Diversity and Inclusion

In 2022, 9% of our summer interns recruited were from ethnic minority backgrounds or students with special educational needs. We have also started a number of initiatives to support diversity and inclusion, including an assessment of office accessibility and the establishment of a "Gender Equity Network".

To raise awareness of diversity and inclusion among our colleagues and to strengthen connections with the community, "Social Inclusion Week" was launched in September with 13 activities including a marketplace with social enterprises, team challenges, cross-industry/ cross-hub seminars and experiential workshops, in collaboration with over 30 NGOs and social enterprises. Over 3,000 colleagues were engaged to understand more about the needs of different people in the community. One of the highlights was an inclusive concert, at which the inclusive orchestra True Colors Symphony's visually impaired musicians performed pieces with MTR colleague, and shared their stories of overcoming adversity with general public.

Equal Opportunities

We continued to promote equal opportunities during the year under review. We aim to make Hong Kong a better, more caring and liveable city through "Community Connect", our platform for activities that support the needs of communities across the city, and launched initiatives in collaborations with non-profit organisations, social enterprises and Government entities. We also aim to promote appreciation of the arts and enhance the passenger experience through our "Art in MTR" programme.

In 2022, our "More Time Reaching Community" volunteering scheme was revamped to strengthen alignment with the Company's three primary social and environmental objectives. During the year, 111 volunteering projects were organised, involving a headcount of 1,599 participating volunteers serving 25,000 people in need. In June and July 2022, we held an "MTR Volunteering Month" themed "Go Green Grow Love" that featured five volunteering activities designed to serve people with intellectual disabilities or visual impairment, the underprivileged and ethnic minority children, and youngsters with special educational needs. During the year, our volunteers also took part in initiatives organised by the Government or NGOs to help Hong Kong people combat the pandemic, including distributing food vouchers, care packs and learning kits and providing disinfection services.

To show our support for International Volunteer Day, the Company co-organised an Inter-Company International Volunteer Week in December 2022 with 10 other companies; together, the group supported 16 NGOs and contributed more than 800 volunteer hours in one week.

We also supported the Hong Kong Family Welfare Society's "Pla-mily" project, which aims to promote family well-being through playing and toy recycling. A total of 1,500 families, including 300 families from underrepresented groups, benefitted from the project.

In 2022, MTR donated and sponsored approximately HK$16.2 million to charitable and other organisations.

During the year, retired train components were donated to schools and NGOs for revitalisation projects. Certain station shops were let to NGOs to help them provide services for the community and create job opportunities for families with special needs.

Through our "Art in MTR" programme, we transform our stations into spaces for arts exhibitions and promotion for the enjoyment of the travelling public and in support of local talent. In August, we collaborated with the Hong Kong Youth Arts Foundation to invite two local artists and local primary and secondary students to create an "East Rail Line • Fun Fun Art" train by decorating an East Rail Line train with landmarks and cultural icons that can be found along the line. Late in the year, we collaborated with M+ to launch the Yayoi Kusama-themed train, featuring Kusama's signature motifs of polka dots and pumpkins and featured works, quotes and even an audio guide about the artist's work. This eye-catching train ran along the Tuen Ma Line between November and December.

ADVANCEMENT & OPPORTUNITIES

Future Skills and Innovation

We strive to help young people achieve promising futures by promoting educational and personal development. Our "'Train' for Life's Journeys" summer youth programme offers students a holistic career and life planning experience to help them set goals for their future development. In 2022, with the theme "Achievement • Inclusion • Dream", 66 students including 10% students from ethnic minority backgrounds participated in the programme, which features workshops, community visits and career sharing about various positions within MTR. Participants embraced diversity and inclusion through interactions and collaboration with people from different cultural backgrounds. Throughout the year, the Company also supported various case competitions for youth, including the AIESEC Outlier Challenge, Hong Kong Shared Good Value Competition and HKMA Business Simulation Competition.

The Company supported the "She Loves Tech 2022" Global Startup Competition and Global Conference for female entrepreneurs. We also collaborated with the Hong Kong Family Welfare Society for a series of STEM classes for 500 students from underprivileged families during the fifth wave of COVID-19, and sponsored 200 tickets for underprivileged students to attend the Social Enterprise Summit and gain exposure to entrepreneurship with social purpose.

The Company signed a collaboration agreement with Hong Kong Science and Technology Parks Corporation ("HKSTP") in August to set up a three-year collaboration framework focusing on the application of innovative technologies, data collaboration and co-investment in tech ventures. This collaboration aims to further enhance MTR's services and customer experience by adopting innovative technologies, while promoting an open innovation and technology ("I&T") ecosystem in Hong Kong, as well as developing Hong Kong into an international I&T hub.

Our new subsidiary, MTR Lab Company Limited, also signed a Memorandum of Understanding with Hong Kong Cyberport Management Company Limited in June to set up a two-year collaboration framework for joint investment in digital technology start-ups.

Enabling the Development of Our Business Partners

All our suppliers and contractors are required to comply with our Supplier Code of Practice, which sets out a compulsory behavioural framework covering ethical standards, human and labour rights, and supply chain management. We have a Green Procurement Policy that promotes high standards of environmental protection, both internally and among our suppliers and contractors.

Also, our Modern Slavery and Human Trafficking Statement defines our commitment to preventing any incidence of modern slavery or human trafficking within our business and supply chains.

To promote ESG among our suppliers, we organised a session on ESG best practice sharing for our suppliers and have launched an incentive scheme for major contracts of new railway projects to measure and reward environmental and safety performance.

GREENHOUSE GAS EMISSIONS REDUCTION

MTR is a proud provider of electrically powered mass transit railway services, offering low-carbon, environmentally sustainable transportation for large urban populations. In order to make our operations even more environmentally friendly, we strive to minimise emissions from our fleet of road vehicles; use resources as efficiently as possible; and minimise or mitigate other environmental impacts of our business.

Carbon Emissions

We have been reporting our GHG emissions since 2002. We measure our GHG emissions in accordance with the Greenhouse Gas Protocol established by the World Resources Institute and the World Business Council for Sustainable Development. In tandem, we follow the guidelines published by the Environmental Protection Department and Electrical and Mechanical Services Department in Hong Kong as well as other international guidelines.

We have completed a carbon reduction study that helped us formulate a long-term roadmap for achieving our GHG reduction objectives. We have committed to establishing science-based carbon reduction targets for the year 2030 for our railway and property businesses in Hong Kong with the aim of achieving carbon neutrality by 2050. These 2030 targets have been submitted to the Science Based Targets initiative for validation. We are also proud to report that we are on track to install more than 200 additional electric vehicle ("EV") charging stations to promote EV use and reduce carbon emissions on local roads.

Clean Energy and Energy Efficiency

In 2022, MTR shopping malls engaged tenants to participate in a variety of energy-saving initiatives. We also piloted a building energy management system in one of our shopping malls. In addition, we have installed solar photovoltaic systems at Hin Keng Station; installations at Pat Heung Depot and Chai Wan Depot are on-going.

Waste Management

With a comprehensive railway station network and sizeable portfolio of shopping malls, waste management is a focal point of our environmental initiatives. In 2022, more than 25% of our F&B tenants in shopping malls joined our food waste reduction programme. We engaged registered food waste collectors to transfer food waste from our staff canteen to O•Park for treatment. To reduce the use of single-use plastic beverage bottles, we installed six additional water dispensers in our stations during the year, making a total of 18 water dispensers available in our network.

Green and Low-carbon Designs

In 2022, we achieved BEAM Plus Provisional Gold accreditation for our planned Tung Chung East and Tung Chung West stations. We also saved 2.5% more water at our depots in 2022 compared with 2021, and saved 2% of water at our shopping malls compared to our 2018 baseline level.

Green Finance

In 2022, green finance totalling HK$2.8 billion was arranged to fund a variety of railway-related conservation and energy efficiency projects. Details of our sustainable investments are provided in our annual Sustainable Finance Report, which is published on our sustainability website.

INDEX AND RECOGNITION

We are proud that our ESG efforts have been recognised in several international sustainability indices. MTR has been included in S&P Global's "The Sustainability Yearbook 2023" for the fourth consecutive year for performance achievements ranking within the top 15% of the industry. Among more than 7,800 companies that were assessed, just 700+ were selected. We are pleased that MTR was awarded an AAA rating in the MSCI ESG Leaders Indexes and "Prime Status" in the ISS ESG Corporate Rating. We are also a constituent of the Dow Jones Sustainability Indices (DJSI) Asia Pacific, FTSE4Good Index Series, Hang Seng Corporate Sustainability Index and Hang Seng ESG 50 Index, all of which serve as testimonial of MTR's unfailing efforts in the ESG space.

VALUE ADDED AND DISTRIBUTION STATEMENT IN 2022
(HK$ MILLION)

Economic Value Generated

Economic Value Generated	HK$ million
Revenue from Hong Kong Transport Operations	13,404
Revenue from Hong Kong Station Commercial Businesses	3,077
Revenue from Hong Kong Property Rental and Management Businesses	4,779
Revenue from Mainland China and International Subsidiaries	26,189
Revenue from Other Businesses[1]	1,458
Hong Kong Property Development Profit from Share of Surplus and Interest in Unsold Properties[2]	11,599

Total: 60,506

Economic Value Distributed

Economic Value Distributed	Stakeholder	HK$ million
Staff Costs[3]	Employees	15,683
Capital and Operating Expenditures in Maintaining, Upgrading and Renewing the Existing Hong Kong Railway System	Existing Hong Kong Railway System	12,358
Other Operating Costs[4]	Suppliers & Business Partners	19,062
Fixed and Variable Annual Payments	KCRC	1,073
Interest and Finance Costs[5]	Lenders	699
Taxes[6]	Governments	1,402
Ordinary Dividends	HKSAR Government	6,673
	Other Shareholders	2,248
Community Investment[7]	Community	25
		59,223
Economic Value Retained for Reinvestment[8]		1,283

Total: 60,506

Notes:

1 *Includes share of profit of associates and joint ventures.*

2 *Before taking into account staff costs of HK$10 million.*

3 *Excludes staff costs related to Hong Kong railway system maintenance of HK$2,477 million, capitalised for asset creation of HK$2,168 million and recoverable of HK$606 million.*

4 *For simplicity reason, other operating costs include interest income, netted with non-controlling interests. Excludes operating costs related to Hong Kong railway system maintenance of HK$2,511 million.*

5 *Excludes interest expenses capitalised for asset creation of HK$356 million.*

6 *Represents current tax and excludes deferred tax for the year.*

7 *Includes donations, sponsorships and other community engagement contributions, and excludes in-kind donations of HK$29 million given. In addition, there were (i) ongoing fare concessions of approximately HK$2.1 billion, (ii) other fare promotions, and (iii) rental concessions granted to station and mall tenants that have not been accounted for in this amount.*

8 *Economic value retained for reinvestment to generate future economic values. This represents underlying business profit attributable to shareholders of the Company (before depreciation, amortisation, impairment loss and deferred tax) for the year retained, after the amounts distributed to our stakeholders and invested in maintenance, upgrade and renewal of our Hong Kong railway system.*

Enhanced Family-friendly Benefits including

16-weeks Maternity Leave

10-days Paternity Leave

6.1

Average Training Days per Employee in Hong Kong

50,000+

Staff Worldwide

HUMAN RESOURCES

We invest in nurturing, developing and engaging our people to help them reach their fullest potential. We also prioritise fostering a progressive workplace with equal employment opportunities for all. In 2022, our efforts in employee engagement and development of our human capital were recognised by a number of external recognitions.

As at 31 December 2022, the Company together with its subsidiaries employed 16,804 people in Hong Kong and 15,504 people outside Hong Kong. Our associates and joint ventures employed an additional 20,735 people in Hong Kong and worldwide.

RECRUITMENT, TALENT MANAGEMENT AND RETENTION

Each year, we launch a variety of initiatives designed to boost our talent acquisition and retention while enhancing employee engagement, motivation and development. In 2022, the voluntary staff turnover rate in Hong Kong was 7.5%.

In the face of the pandemic and the resulting economic downturn, we have striven to protect jobs while ensuring business sustainability and continuity over the past few years. As we continue to take a prudent approach towards resourcing and cost management, we are also investing in staff development to ensure the long-term success of our business and people.

We provide competitive pay and benefits, short- and long-term incentive schemes, and a broad range of career development opportunities under our total reward framework. We conduct regular reviews to maintain the market competitiveness of our pay and benefits for staff. In 2022, adoption leave was introduced to support colleagues with different family needs. Eligible colleagues are also entitled to the enhanced paid maternity leave of 16 weeks and paid paternity leave of ten days. Our robust performance management system recognises and rewards staff through a performance-based pay review mechanism as well as various motivational schemes and awards. As a caring employer, we also promote staff well-being and family-friendly policies to enhance work-life balance. Our Work From Home policy was formalised after the one-year pilot to assist colleagues to better integrate work and life commitments during the pandemic. Colleagues who are able to perform their jobs remotely may apply to work from home for greater flexibility under certain situations.

We continue to identify, engage and develop high-potential talents through the Annual Talent Review Process and Talent Pipeline Programmes. For instance, the Management Potential Development Programme aims to build a sustainable talent pipeline of future leaders who will contribute to the achievement of the Company's business goals and corporate strategy objectives. To this end, we have enhanced our performance management process with the MTR Leadership Competency Framework, which will promote greater organisational alignment of staff's performance goals with the Company's priorities to facilitate successful delivery.

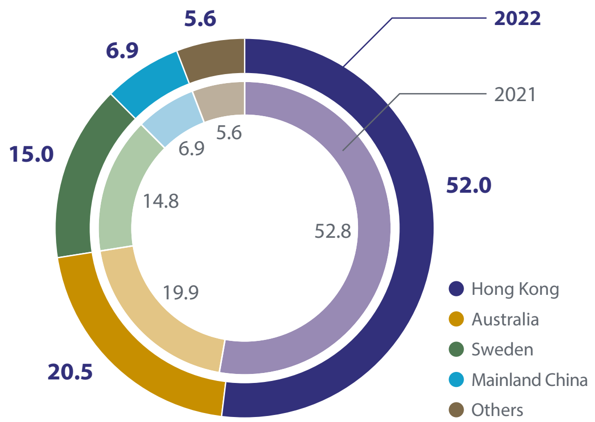
We also continued to offer rewarding career opportunities for youth in 2022. Facing the challenges arising from the pandemic, we continued our graduate recruitment programme by enhancing our digital capability and hosting virtual recruitment initiatives to attract high-potential university graduates to join MTR. In 2022, we welcomed 74 high-calibre graduates to the Company's various graduate development programmes. In addition, we recruited 112 apprentices and technician associates and 41 graduate engineers to our Apprenticeship and Graduate Engineer schemes, respectively. During the year, we also provided summer internship opportunities to a diverse group of 110 tertiary-level students. In 2022, we became a signatory of the Equal Opportunities Commission's Racial Diversity & Inclusion Charter, which encourages employers to promote racial diversity and inclusion in the workplace.

STAFF MOTIVATION AND ENGAGEMENT

MTR values staff's opinions and strives to take measures to enhance employee engagement. In December 2021, we conducted an Employee Engagement Survey to solicit feedback from staff in Hong Kong and managers of our wholly owned subsidiaries outside Hong Kong, the results of which were communicated to management and staff in February and March 2022. Our employee engagement level decreased slightly compared to the previous survey due to the unprecedented challenges faced by MTR in recent years, including the pandemic's effects and work-related stress arising from various societal and economic issues. In total, ten task forces were formed at the corporate and business unit/ function levels to analyse the results and formulate follow-up action plans for addressing staff's concerns with full support from Management. Follow-up action planning was completed

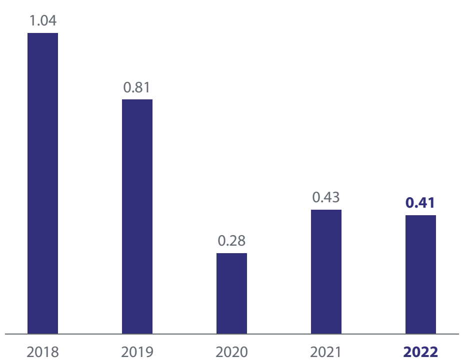
Staff Distribution by Geographical Location

(Percentage)



Staff Productivity – Earnings Per Employee*

(HK$ million)



* *Hong Kong businesses excluding property development*

in June 2022 for implementation starting from July 2022 onwards. In addition, a pulse survey was conducted in December 2022 to listen to staff's feedback and track the progress of action plan implementation.

Throughout the year, we organised a number of initiatives to recognise the hard work and strong performance of our staff. In February 2022, we granted a HK$1,000 special lai-see to all eligible colleagues to thank them for their contributions in difficult times. In March and April 2022, we gave special "Living the MTR Values" awards to eligible staff for exceptional efforts made in the fight against the fifth wave of COVID-19. In addition to the annual pay review in July, we offered special salary increases to colleagues who had demonstrated consistently strong performance in recent years, enhanced many of our family-friendly benefits, including maternity, paternity and compassionate leave, and introduced adoption leave as mentioned above. In November 2022, we held the annual "MTR Grand Awards for Outstanding Contribution and Long Service Awards Presentation Ceremony" to recognise colleagues and teams who have demonstrated exemplary performance and loyal contributions to the Company. Among the 460 long service awardees who have served for 20, 30 or 40 years in MTR, 50 awardees received the 40 Years' Service Award, which was a record high.

LISTENING AND RESPONDING TO STAFF

Maintaining regular two-way communications with staff is critical to our engagement efforts. Our Staff Consultation Mechanism enables management to maintain close connection with more than 1,000 staff representatives directly elected by fellow colleagues to discuss matters of common concerns. In 2022, more seats of staff representatives were introduced to enhance engagement with our younger workforce. Throughout the year, the Company held quarterly meetings for the Staff Consultative Council ("SCC") and 49 Joint Consultative Committees, with the outcomes of constructive discussions published as part of regular updates for colleagues. In addition to regular meetings, 12 communication sessions with staff representatives and unions were organised in 2022 to update them on the latest developments of our business, particularly railway operations and anti-pandemic measures, and to proactively address their concerns.

During the year, we continued to host a variety of staff communications initiatives to keep employees from different parts of the Company around the world informed of corporate developments. These included CEO focus groups, CEO site visits, CEO Messages and blog posts, and feature videos through various Company platforms, including MTRconnects. A total of 12 virtual forums and meetings were conducted, including Executive Managers Forum and Management Communication Meetings, connecting managers in Hong Kong, Mainland China and overseas hubs.

A CULTURE OF CONTINUOUS LEARNING

In 2022, we provided 1,418 training courses in Hong Kong covering a comprehensive range of learning and development topics, delivering an average of 6.1 training days per staff member. We also continued our digital training offerings during the year, conducting 520 various e-learning courses to 15,366 staff for a total of 77,424 hours. Delivering our learning and development programmes via virtual workshops, webinars and other technology-aided modes in addition to face-to-face sessions once again enabled us to engage as many colleagues as possible during the pandemic.

In 2022, we introduced a series of self-directed learning initiatives to colleagues via platforms including LinkedIn Learning and Blinkist as well as modules from the Executive Online programme hosted by leading business schools. Managers also used virtual platforms to take advantage of new opportunities to learn the latest business management practices from world-class institutions such as INSEAD and Oxford Business School.

We also continued to operate our Learning Management System during the year. This one-stop portal nurtures a continuous learning culture by providing staff with access to valuable technical and management self-learning resources anywhere and at any time.

MTR ACADEMY

The MTR Academy ("the Academy") is a world-leading institution where railway management and engineering professionals can enhance their knowledge, further their careers and contribute to the long-term growth of the industry. The Academy also serves as a valuable tool for exporting MTR's brand and expertise both regionally and globally.

For the 2022 academic year, 92 students were admitted, including 50 full-time students. A total of 75 students attained their Diploma in Transport Studies, Advanced Diploma in Railway Engineering and Advanced Diploma in Transport Operations & Management with the Academy, while 29 students graduated from the "Railway Studies" Applied Learning programme in 2022. The Academy continued to provide Master programme teaching support to the Hong Kong Polytechnic University on railway engineering. The Academy also chaired the Corporate Tech Academies Network Task Force for the 2022 Vocational & Professional Education & Training ("VPET") Secondary School Competition as part of its efforts to promote VPET skills in Hong Kong.

In addition, the Academy achieved a new milestone with the launch of the MTR Research Funding ("MRF") Scheme, promoting and facilitating exploratory research on the transport of tomorrow.

FUTURE PLANS

Through the MRF Scheme, the Academy will continue to foster forward-looking, railway-oriented research in the academic community and nurture research talent for future industry growth. Meanwhile, it will continue to build upon its reputation as a leading railway management and engineering institution while exploring potential partnership opportunities to bring high-quality programmes to more students and professionals throughout the region.

FINANCIAL REVIEW

HK$47,812 million
Total Revenue
Increased by 1.3%

HK$10,637 million
Underlying Business Profit
Decreased by 4.6%

Strong Credit Ratings
AA+
by Standard & Poor's
(long-term)

A review of the Group's results and operations is featured in the preceding sections. This section discusses and analyses these results in a greater level of detail.

CONSOLIDATED PROFIT OR LOSS

HK$ million	Year ended 31 December 2022	2021	Favourable/ (Unfavourable) Change HK$ million	%
Total Revenue	**47,812**	**47,202**	**610**	**1.3**
Recurrent Business Profit				
EBIT[ε]				
Hong Kong Transport Services				
– Hong Kong Transport Operations	**(4,733)**	(4,262)	(471)	(11.1)
– Hong Kong Station Commercial Businesses	**2,270**	2,488	(218)	(8.8)
Total Hong Kong Transport Services	**(2,463)**	(1,774)	(689)	(38.8)
Hong Kong Property Rental and Management Businesses	**3,800**	4,048	(248)	(6.1)
Mainland China and International Railway, Property Rental and Management Subsidiaries*	**962**	622	340	54.7
Other Businesses, Project Study and Business Development Expenses	**(539)**	(567)	28	4.9
Share of Profit of Associates and Joint Ventures	**1,095**	968	127	13.1
Total Recurrent EBIT (before Impairment Loss)	**2,855**	3,297	(442)	(13.4)
Impairment Loss on Shenzhen Metro Line 4	**(962)**	–	(962)	n/m
Total Recurrent EBIT (after Impairment Loss)	**1,893**	3,297	(1,404)	(42.6)
Interest and Finance Charges	**(1,061)**	(1,045)	(16)	(1.5)
Income Tax	**(361)**	(317)	(44)	(13.9)
Non-controlling Interests	**(314)**	(127)	(187)	(147.2)
Recurrent Business Profit	**157**	1,808	(1,651)	(91.3)
Property Development Profit (Post-tax)				
In Hong Kong	**10,413**	9,277	1,136	12.2
Outside Hong Kong	**67**	66	1	1.5
Property Development Profit (Post-tax)	**10,480**	9,343	1,137	12.2
Underlying Business Profit	**10,637**	**11,151**	**(514)**	**(4.6)**
Loss from Fair Value Measurement of Investment Properties (Post-tax)				
Loss from Fair Value Remeasurement on Investment Properties	**(3,076)**	(2,065)	(1,011)	(49.0)
Gain from Fair Value Measurement of Investment Properties on Initial Recognition from Property Development	**2,266**	466	1,800	386.3
Loss from Fair Value Measurement of Investment Properties (Post-tax)	**(810)**	(1,599)	789	49.3
Net Profit Attributable to Shareholders of the Company	**9,827**	**9,552**	**275**	**2.9**
Total Recurrent EBIT Margin[#] *(in %)*	**1.7%**	5.0%		(3.3)% pts
Total Recurrent EBIT Margin[#] (excluding Mainland China and International Subsidiaries) *(in %)*	**3.7%**	7.8%		(4.1)% pts

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

* *: Excluding the impairment loss of HK$962 million in respect of Shenzhen Metro Line 4 in Mainland China.*

\# *: Excluding share of profit of associates and joint ventures. If excluding the impairment loss of HK$962 million made in respect of Shenzhen Metro Line 4 in 2022, the recurrent EBIT margins (both including and excluding Mainland China and International Subsidiaries) would have been 3.7%.*

n/m *: not meaningful*

Our Hong Kong recurrent businesses had been severely impacted by the outbreak of the fifth wave of COVID-19 since the beginning of 2022, but they started to gradually recover following the phased lifting of various anti-pandemic measures. Outside of Hong Kong, our railway businesses in Mainland China were significantly impacted by the outbreak of the Omicron variant and an impairment provision that was made in respect of Shenzhen Metro Line 4, but higher profit contribution was seen from our businesses in Australia. Our property development business recorded satisfactory profit during the year, mainly from three of our development projects in Hong Kong.

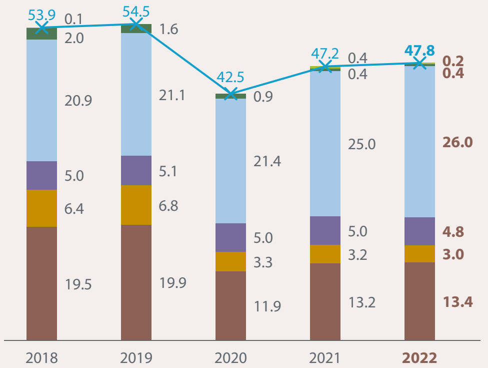
Total Revenue

The Group's total revenue in 2022 increased slightly by 1.3% to HK$47,812 million when compared to 2021. The increase was mainly contributed by (i) higher revenue from our Melbourne transport operations, (ii) increased design and delivery project income from the Sydney Metro City & Southwest project, and (iii) incremental revenue from our Hong Kong transport operations ("HKTO") from the full-year of operation of the full Tuen Ma Line and the opening of the East Rail Line cross-harbour extension in May 2022. These factors were partially offset by (iv) the impact of unfavourable exchange rates on revenue from our overseas businesses and (v) weaker fare and non-fare revenue from our Hong Kong businesses due to the fifth wave of COVID-19.

The closures of major passenger boundary crossings between Hong Kong and Mainland China in 2022 and various air travel restrictions that were in place throughout almost the entire year continued to have material adverse impacts on our Cross-boundary and Airport Express fare revenue as well as Duty Free Shops and other rental revenue as visitor arrivals remained minimal.

Total Revenue

(HK$ billion)



- Total Revenue
- Mainland China Property Development
- Other Businesses
- Mainland China and International Railway, Property Rental and Management Subsidiaries
- Hong Kong Property Rental and Management Businesses
- Hong Kong Station Commercial Businesses
- Hong Kong Transport Operations

Recurrent Business Profit

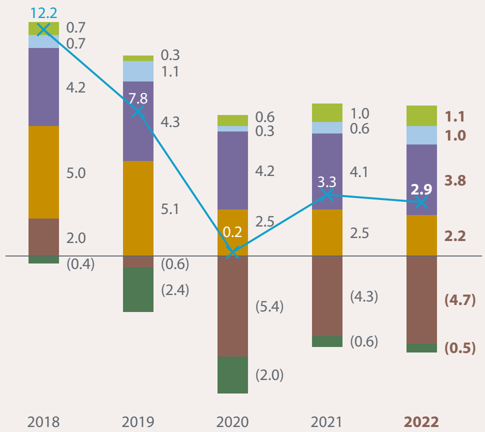
The reintroduction and further tightening of anti-pandemic measures at the time when the fifth wave of COVID-19 struck Hong Kong in early 2022 had severely impacted the financial performance of our Hong Kong recurrent businesses, particularly leading to a significant decrease in patronage. Outside of Hong Kong, our railway businesses were also adversely impacted by the outbreak of the Omicron variant in Mainland China as well as a shortage of operational staff and maintenance issues in the Nordic region, although these factors were mitigated by improved profit in our Australia businesses.

Besides, the Group recognised an impairment provision of HK$962 million in respect of Shenzhen Metro Line 4 in the first half of 2022 resulting from the no fare increase situation as explained in the past. As a result, the Group's recurrent businesses reported a profit of HK$157 million this year, compared to HK$1,808 million in 2021. Excluding the HK$962 million impairment provision, our recurrent profit would have been HK$1,119 million, a decrease of HK$689 million or 38.1% as compared with 2021.

Total Recurrent EBIT by Businesses

Total Recurrent EBIT^

(HK$ billion)



- Total Recurrent EBIT
- Share of Profit of Associates and Joint Ventures
- Mainland China and International Railway, Property Rental and Management Subsidiaries
- Hong Kong Property Rental and Management Businesses
- Hong Kong Station Commercial Businesses
- Hong Kong Transport Operations
- Other Businesses, Project Study and Business Development Expenses

^ *Including share of profit of associates and joint ventures, project study and business development expenses but excluding Impairment Loss on Shenzhen Metro Line 4*

The Group's total recurrent EBIT (including share of profit of associates and joint ventures as well as project study and business development expenses) in 2022 was HK$1,893 million, a decrease of HK$1,404 million when compared to 2021. Contributions from respective businesses are as follows:

HKTO: Continued to record significant EBIT loss of HK$4,733 million in 2022, and the loss was widened by HK$471 million or 11.1% when compared to 2021. This was mainly due to the significant decline in our Domestic patronage and fare revenue when the fifth wave of COVID-19 struck Hong Kong in early 2022. Our patronage in February and March 2022 reduced to the lowest level since the outbreak of COVID-19. Nevertheless, our Domestic patronage started to rebound since late April 2022 following the ease of social distancing measures by phases, as well as the incremental patronage resulting from the opening of the East Rail Line cross-harbour extension in May 2022. Our Airport Express patronage showed good signs of recovery as international air travel sentiment improved following the new "0+3" quarantine scheme for inbound travellers effective from late September 2022, which was subsequently fully lifted in late December 2022. As boundary railway crossings between Hong Kong and Mainland China remained closed throughout 2022, HKTO continued to report a significant loss during the reporting period.

Hong Kong station commercial businesses ("HKSC"): EBIT profit decreased by HK$218 million or 8.8% to HK$2,270 million. HKSC performance has been adversely impacted by the pandemic since February 2020, when revenue stream derived from Duty Free Shops stopped due to the closure of boundary crossing stations.

Decrease in EBIT profit against 2021 were primarily due to lower advertising revenue from austerity budget of advertisers, in light of the relatively slow consumption market recovery resulting from the outbreak of the fifth wave of COVID-19 in 2022.

Rental income from station kiosks along Domestic lines also decreased as a result of negative rental reversions of 14.6% on renewals and new lets for station kiosks. This was partially offset by the lower rental concessions amortised in 2022 in respect of the current and prior years' grants.

Hong Kong property rental and management businesses ("HKPR&M"): EBIT profit decreased by HK$248 million or 6.1% to HK$3,800 million. This decrease was mainly due to the negative rental reversion suffered from the pandemic. For the year, shopping malls recorded negative rental reversion of 9.0% on renewals and new lets. A series of promotional campaigns on our MTR Mobile app and a variety of targeted marketing campaigns were launched to drive mall traffic and stimulate spending during this challenging period.

Mainland China and international railway, property rental and management subsidiaries: COVID-19 continued to adversely impact our Mainland China and international business subsidiaries to varying degrees, depending on the impact of the pandemic in the different cities in which we operate and the revenue exposure under different business models in such cities.

Overall, EBIT profit improved by HK$340 million, or 54.7%, to HK$962 million. This was mainly attributable to better performance by our Melbourne transport operation from revenue protection mechanism and Sydney Metro City & Southwest project, though it was partly offset by the adverse impact from (i) the shortage of operational staff and maintenance issues on our Nordic businesses, (ii) the impact of the pandemic on our Mainland China business and (iii) the depletion of local government subsidies for Shenzhen Metro Line 4 by late 2022.

Other businesses, project study and business development expenses: EBIT loss from these businesses was HK$539 million in 2022, compared to HK$567 million in 2021. The incurred loss is mainly due to service suspension of Ngong Ping 360 during the fifth wave of COVID-19.

Share of profit of associates and joint ventures

Share of profit of associates and joint ventures increased by HK$127 million or 13.1% to HK$1,095 million in 2022. The increase was mainly due to the increase in profit sharing from Octopus Holdings Limited, which resulted from improved consumer sentiment and the spill over effect from the Government Consumption Voucher Scheme, as well as our increased shareholding since early 2022. Profit was partly offset by worsening performance in our Hangzhou operations due to lower patronage as a result of the pandemic.

Impairment Loss on Shenzhen Metro Line 4

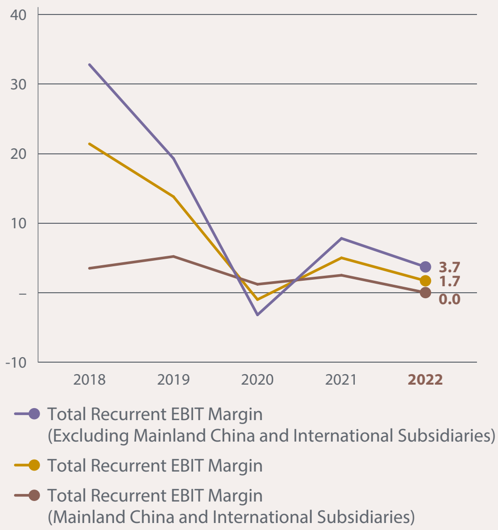
As we have been warning repeatedly for some time, if a suitable fare increase and adjustment mechanism are not implemented in Shenzhen soon, the long-term financial viability of this line will be impacted. In this connection, an impairment provision of HK$962 million was made in the first half of 2022 for Shenzhen Metro Line 4 as it is anticipated that the mechanism and procedures for fare adjustments will take longer time to implement and patronage will remain at a lower level for a period of time. Based on the review performed by the Group as at 31 December 2022, no further impairment provision was made.

Total Recurrent EBIT Margin

Total recurrent EBIT margin had declined since 2019 before rebounding in 2021 following stabilisation in the number of pandemic cases. Due to the fifth wave of COVID-19 in Hong Kong and other outbreaks in Mainland China, EBIT margins declined to 3.7% and 1.7% in 2022, before and after taking into account the impairment provision of Shenzhen Metro Line 4, respectively.

Total Recurrent EBIT Margin#

(Percentage)



Excluding share of profit of associates and joint ventures

Interest and Finance Charges

Interest and finance charges for recurrent businesses were HK$1,061 million, representing an increase of 1.5% from 2021. This was mainly due to higher interest rate. A detailed review of the Group's financing activities is featured in the ensuing section.

Income Tax

Tax expenses for recurrent businesses were HK$361 million, an increase of 13.9% over 2021. This was mainly due to the increased proportion of profit generated in tax jurisdictions with higher tax rates, particularly in Australia.

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 2022/2023 amounted to HK$4.6 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

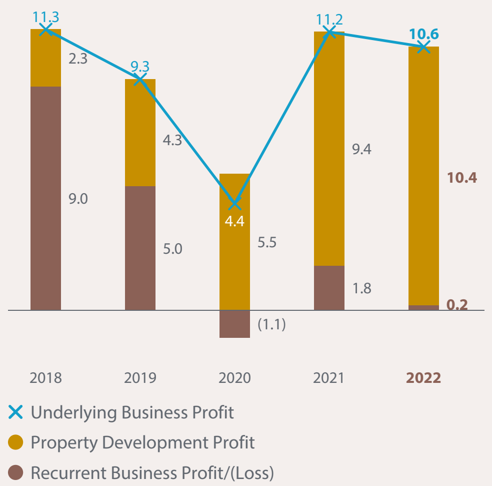
Company has strong legal grounds and have determined to contest and appeal against the assessments for the years of assessment from 2011/2012 to 2017/2018. Accordingly, the Company lodged a notice of appeal to the Inland Revenue Board of Review on 16 June 2022. No additional tax provision has been made as a result of the determination received in respect of the above notices of profits tax assessments/additional profits tax assessments and other relevant years of assessment. The date of hearing before the Board of Review is scheduled to be held in early 2024.

Property Development Profit (Post-tax)

The Group's property development profit (post-tax) was HK$10,480 million, representing an increase of 12.2% over 2021. Property development profit for 2022 was mainly derived from the incomes and share of surplus proceeds from LP10 (LOHAS Park Package 10), SOUTHLAND (The SOUTHSIDE Package 1) and La Marina (The SOUTHSIDE Package 2), while profit recorded for 2021 was mainly contributed by MONTARA (LOHAS Park Package 7), SEA TO SKY (LOHAS Park Package 8) and MARINI (LOHAS Park Package 9).

Underlying Business Profit

The Group's underlying business profit was HK$10,637 million compared to HK$11,151 million in 2021. This was due to the decrease in Recurrent Business Profit of HK$1,651 million, which was partly offset by the increase in Property Development Profit of HK$1,137 million.



Loss from Fair Value Measurement of Investment Properties (Post-tax)

Loss from fair value measurement of investment properties was HK$810 million in 2022, comprising investment property fair value remeasurement loss of HK$3,076 million, partly mitigated by gain from fair value measurement of investment properties of HK$2,266 million on initial recognition of the shopping mall, The Wai.

The fair value remeasurement on the Group's investment properties in Hong Kong and Mainland China, which were performed by independent professional valuation firms, resulted in a post-tax fair value remeasurement loss of HK$3,076 million for the year ended 31 December 2022, compared to a fair value remeasurement loss of HK$2,065 million for 2021. The loss, being a non-cash item, represents an approximately 3.6% drop against the value as of 31 December 2021. This loss was mainly explained by the continued negative rental reversions recorded in 2022 due to the pandemic.

Gain from fair value measurement of investment properties on initial recognition from property development of HK$2,266 million represented the receipt of sharing-in-kind shopping mall, The Wai.

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$9,827 million for the year ended 31 December 2022, compared to HK$9,552 million for 2021.

CONSOLIDATED FINANCIAL POSITION

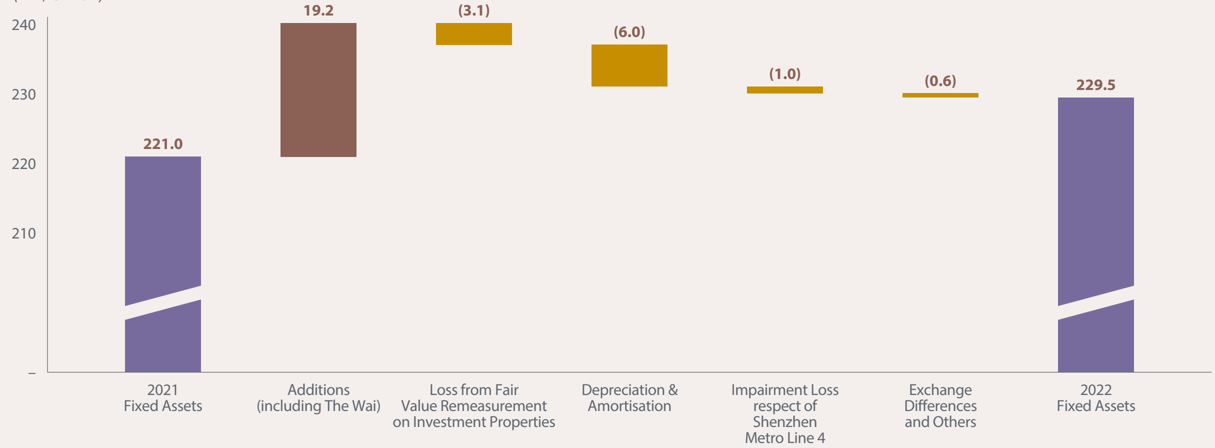
HK$ million	As at 31 December 2022	As at 31 December 2021	Inc./(Dec.) HK$ million	Inc./(Dec.) %
Fixed Assets	**229,491**	221,032	8,459	3.8
Property Development in Progress	**41,269**	11,215	30,054	268.0
Interests in Associates and Joint Ventures	**12,338**	12,442	(104)	(0.8)
Debtors and Other Receivables	**13,889**	14,797	(908)	(6.1)
Cash, Bank Balances and Deposits	**16,134**	20,970	(4,836)	(23.1)
Other Assets	**13,960**	11,626	2,334	20.1
Total Assets	**327,081**	292,082	34,999	12.0
Total Loans and Other Obligations	**47,846**	43,752	4,094	9.4
Creditors and Other Liabilities	**74,481**	43,644	30,837	70.7
Obligations Under Service Concession	**10,142**	10,231	(89)	(0.9)
Deferred Tax Liabilities	**14,700**	14,418	282	2.0
Total Liabilities	**147,169**	112,045	35,124	31.3
Net Assets	**179,912**	180,037	(125)	(0.1)
Represented by:				
Total Equity Attributable to Shareholders of the Company	**179,286**	179,714	(428)	(0.2)
Non-controlling Interests	**626**	323	303	93.8
Total Equity	**179,912**	180,037	(125)	(0.1)

Fixed Assets

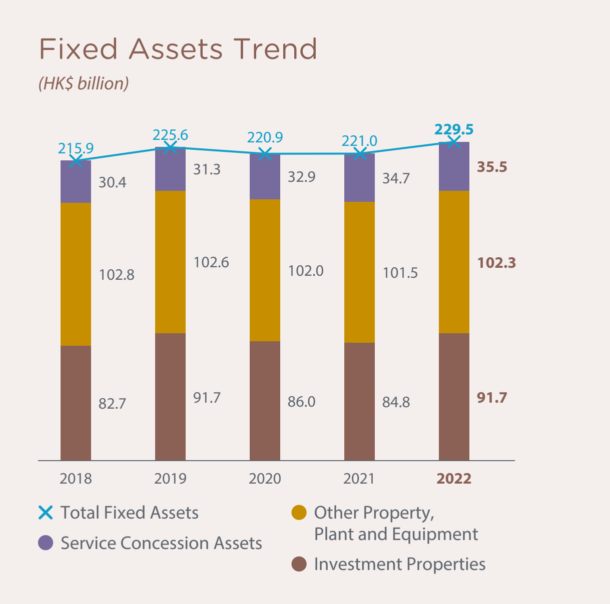
Fixed assets increased by HK$8,459 million to HK$229,491 million, mainly due to additions of HK$19,242 million on The Wai, renewal and upgrade works for our existing Hong Kong railway network and investment property portfolio, and service concession assets in respect of Shenzhen Metro Line 13. These factors were partly offset by total depreciation and amortisation of HK$6,034 million for the year, an impairment provision of HK$962 million for Shenzhen Metro Line 4 and the loss from fair value remeasurement on our investment property portfolio of HK$3,076 million.

Movements in Fixed Assets

(HK$ billion)



The graph below shows the Group's fixed assets trend over the past five years.



Property Development in Progress

Property development in progress increased significantly by HK$30,054 million to HK$41,269 million, which was predominantly due to the asset increase arising from the government grant accounting in relation to the Oyster Bay Project.

Interests in Associates and Joint Ventures

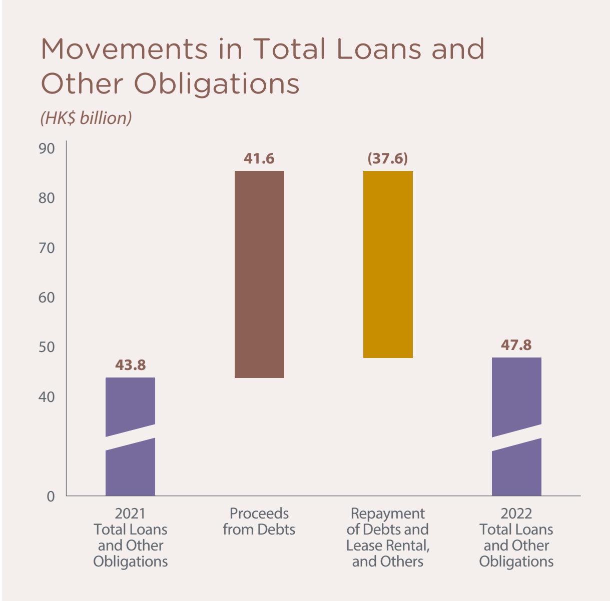
Interests in associates and joint ventures decreased mainly due to exchange loss on the carrying amounts of investments arising primarily from the depreciation of the Renminbi, but mitigated by share of profit from associates and joint ventures, net of dividend declared.

Debtors and Other Receivables

Debtors and other receivables decreased mainly due to receipts of cash in respect of LOHAS Park property development projects.

Total Loans and Other Obligations

Total loans and other obligations increased mainly due to net drawdown of loans.



Creditors and Other Liabilities

Creditors and other liabilities increased significantly by HK$30,837 million to HK$74,481 million, which was mainly due to recognition of notional deferred income under government grant accounting relating to the Oyster Bay Project. This deferred income will be used to offset the costs for the construction of the new Oyster Bay Station, re-provision of the Siu Ho Wan depot, property enabling works and site formation of the project.

Total Equity

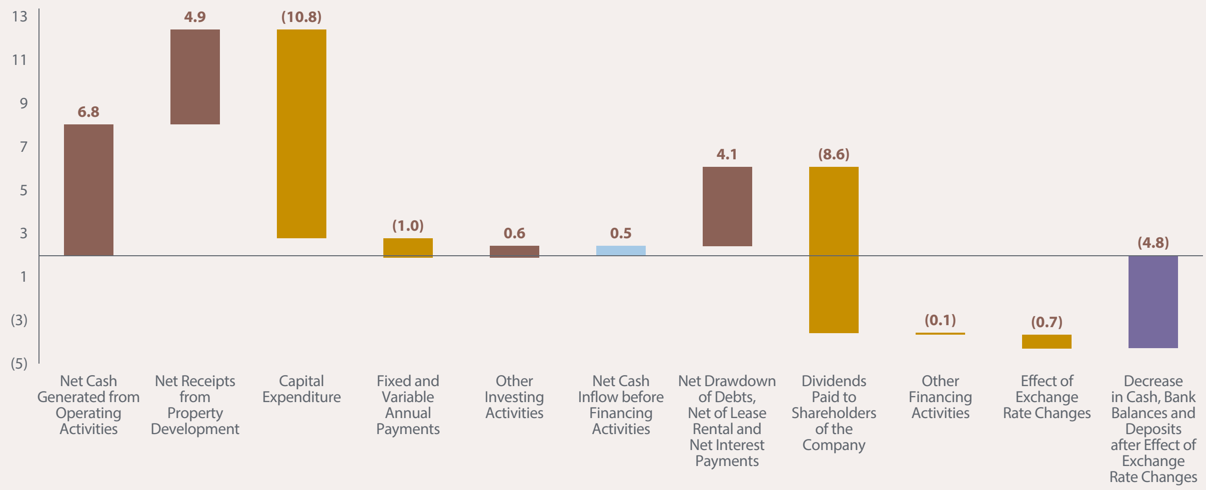
Total equity slightly decreased by HK$125 million to HK$179,912 million. This was mainly attributable to the payments of the 2021 final and 2022 interim ordinary dividends during the year, as well as the unfavourable exchange differences on our Mainland China and international assets as a result of the stronger HK dollar, mitigated by net profit recorded for the year.

CONSOLIDATED CASH FLOWS

HK$ million	2022		2021	
Net Cash Generated from Operating Activities		**6,757**		7,472
Receipts in respect of Property Development	**14,162**		17,779	
Payments in respect of Property Development	**(9,245)**		(1,137)	
Net Receipts from Property Development		**4,917**		16,642
Capital Expenditure		**(10,808)**		(7,785)
Fixed Annual Payments	**(750)**		(750)	
Variable Annual Payments	**(260)**		(238)	
Fixed and Variable Annual Payments		**(1,010)**		(988)
Other Investing Activities		**589**		(704)
Net Cash Inflow before Financing Activities		**445**		14,637
Net Drawdown/(Repayment) of Debts, and Lease Rental Payments	**4,768**		(6,583)	
Net Interest Payments	**(668)**		(734)	
Net Drawdown/(Repayment) of Debts, Lease Rental and Net Interest Payments		**4,100**		(7,317)
Dividends Paid to Shareholders of the Company		**(8,562)**		(7,165)
Other Financing Activities		**(109)**		(49)
(Decrease)/Increase in Cash, Bank Balances and Deposits before Effect of Exchange Rate Changes		**(4,126)**		106
Effect of Exchange Rate Changes		**(710)**		(42)
(Decrease)/Increase in Cash, Bank Balances and Deposits after Effect of Exchange Rate Changes		**(4,836)**		64
Cash, Bank Balances and Deposits as at 1 January		**20,970**		20,906
(Decrease)/Increase in Cash, Bank Balances and Deposits after Effect of Exchange Rate Changes		**(4,836)**		64
Cash, Bank Balances and Deposits as at 31 December		**16,134**		20,970

Cash Flows for the Year Ended 31 December 2022

(HK$ billion)



Net Cash Generated from Operating Activities

Net cash generated from operating activities decreased by HK$715 million to HK$6,757 million in 2022 from HK$7,472 million in 2021. This resulted mainly from the decrease in operating profit due to the pandemic.

Net Receipts for Property Development

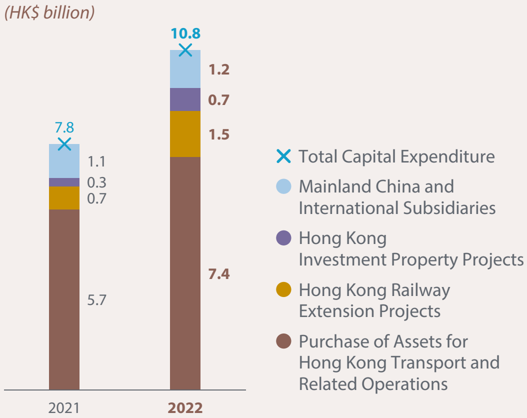
Net receipts for property development were HK$4,917 million, comprising (i) cash receipts of HK$14,162 million from The SOUTHSIDE and LOHAS Park packages, which were offset by (ii) cash payments of HK$9,245 million mainly for the Oyster Bay Project.

Capital Expenditure

In 2022, capital expenditure amounted to HK$10,808 million. This comprised HK$7,370 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$1,465 million for Hong Kong railway extension projects mainly initial work for RDS 2014 projects; HK$1,204 million for Mainland China and overseas subsidiaries such as Shenzhen Metro Line 13, and HK$769 million for Hong Kong investment properties.

Total Capital Expenditure

(HK$ billion)



Net Drawdown of Debts, Net of Lease Rental and Net Interest Payments

In 2022, net drawdown of debts, net of lease rental and net interest payments of HK$4,100 million comprised (i) proceeds of HK$41,646 million from loans and capital market instruments, offset by (ii) repayment of HK$36,878 million mainly relating to loans and (iii) net interest payment of HK$668 million.

Dividends Paid to Shareholders of the Company

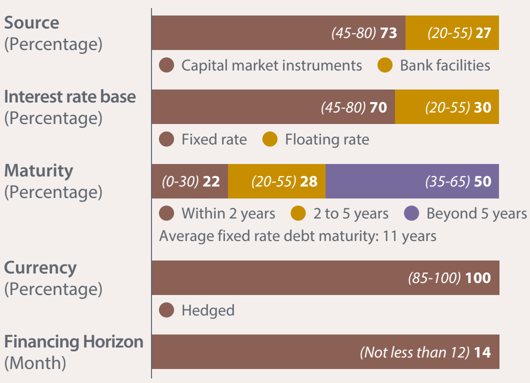
The Group paid dividends of HK$8,562 million (2021: HK$7,165 million) in cash, being the 2021 final dividend of HK$1.02 per share and the 2022 interim dividend of HK$0.42 per share. The increase was due to a higher interim dividend per share in 2022, which was around one-third of the total dividends per share for the entire year, as compared to the 2021 interim dividend of HK$0.25 per share.

FINANCING ACTIVITIES

Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's approach to debt management and helps ensure a prudent and well-balanced debt portfolio

(Preferred Financing Model) vs. **Actual debt profile** as at 31 December 2022



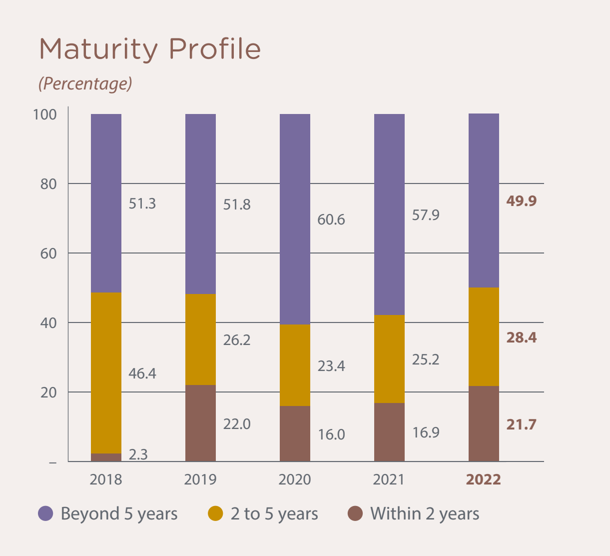
Interest rates for both USD and HKD rose significantly as the US Federal Reserve hiked its benchmark rate multiple times in 2022 at the fastest pace in decades. The 3-month USD Libor increased to 4.77% p.a. at the end of the year from 0.21% p.a. at the start of the year. Likewise, 3-month HKD Hibor rose to 4.99% p.a. from 0.26% p.a. The 10-year US Treasury yield rose to 3.87% p.a. at year end from 1.51% p.a. at the start of the year, while the 10-year HKD swap rate rose to 3.86% p.a. from 1.54% p.a.

Financing of HK$12.8 billion in total was arranged by the Company in 2022, including the equivalent of HK$10.3 billion from MTN issuance with maturities ranging between one and five years, and HK$2.5 billion from bank loans with tenors between three and five years. HK$2.8 billion of financing in 2022 was arranged under our Sustainable Finance Framework, where the proceeds were earmarked for eligible investments.

As at the end of 2022, the proportion of fixed rate borrowings of the Company stood at 70%.

Maturity Profile

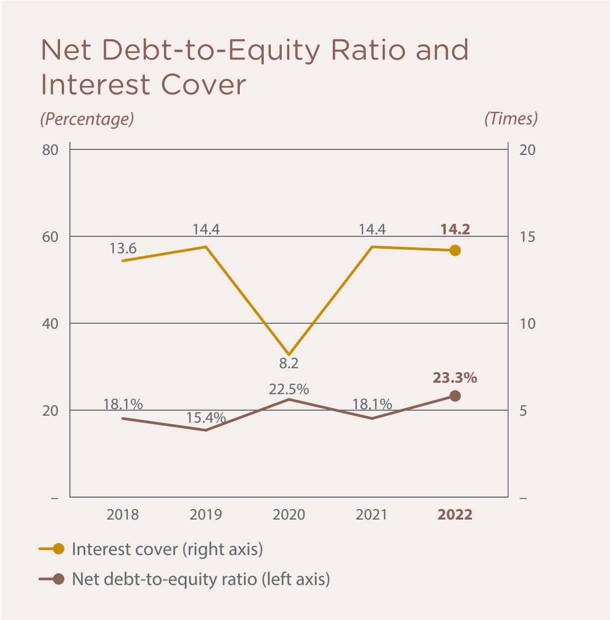
The graph below shows the maturity profiles of the Company's interest-bearing borrowings at year-end 2018-2022. The spread of the maturities of the Company's borrowings helps diversify the refinancing risk of the Company.



Gearing Ratio and Interest Cover

The Group's gearing ratio, as measured by net debt-to-equity ratio, increased by 5.2 percentage points to 23.3% at year-end 2022 from 18.1% at year-end 2021 mainly due to payment for the land premium in relation to the Oyster Bay Project during the year. The Group's interest cover decreased from 14.4 times in 2021 to 14.2 times in 2022.

The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years.

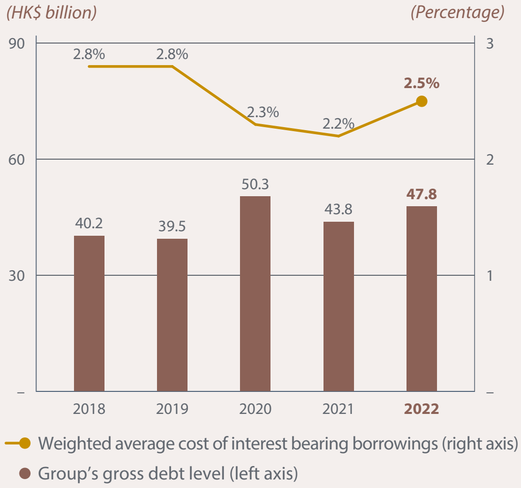


Cost of Borrowing

The Group's consolidated gross debt position increased to HK$47,846 million at year-end 2022 from HK$43,752 million at year-end 2021. The weighted average cost of the Group's interest-bearing borrowings increased to 2.5% p.a. in 2022 from 2.2% p.a. in 2021 mainly due to higher average cost of floating rate borrowing resulting from higher HKD Hibor.

The diagram below shows the Group's gross debt level and weighted average cost of interest-bearing borrowings.

Group's Gross Debt Level and Weighted Average Cost of Interest-bearing Borrowings



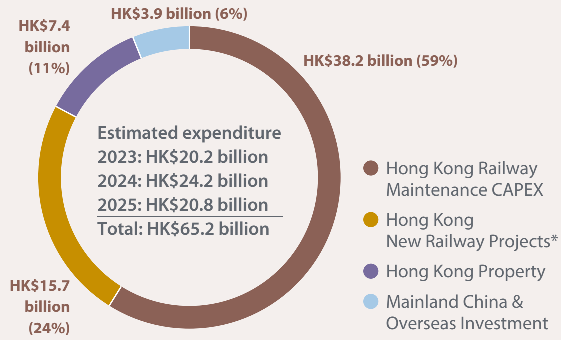
Capital Expenditure and Investment

The Group's capital expenditure and investment can be categorised into the following: Hong Kong railway projects (further classified into maintenance work for existing railways and new projects), Hong Kong property investment and development, and Mainland China and overseas investment. Total spending from 2023 to 2025 is estimated at around HK$65 billion.

Capital expenditure on Hong Kong railway projects will continue to constitute a significant portion of capital expenditure in 2023-2025, following the signing of the project agreements for the Oyster Bay Project and Tung Chung Line Extension Project. The capital works expenditure and the funding arrangements of the other RDS 2014 new projects can only be ascertained after our entering into the relevant project agreements with the Government.

The Group believes that based on its cash, bank balances and deposits of more than HK$16 billion, total available committed banking facilities of more than HK$14 billion as at 31 December 2022, and its ready access to both the loan and debt capital markets, it will have sufficient financing capacity to fund its capital expenditure and investment programme.

Capital Expenditure and Investment (2023–2025)



* *Including planning and design CAPEX but excluding related construction CAPEX of New Railway Projects, which are subject to the signing of project agreements.*

Credit Ratings (as of 9 March 2023)

Credit ratings	Short-term*	Long-term*
Standard & Poor's	A-1+/A-1+	AA+/AA+
Moody's	–/P-1	Aa3/Aa3
Rating & Investment Information, Inc. (R&I)	a–1+	AA+

* *Ratings for Hong Kong dollar/foreign currency-denominated debts respectively*

TEN-YEAR STATISTICS

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Financial										
Consolidated Profit or Loss *(in HK$ million)*										
Total revenue										
– Hong Kong transport services										
– Hong Kong transport operations	**13,404**	13,177	11,896	19,938	19,490	18,201	17,655	16,916	16,223	15,166
– Hong Kong station commercial businesses	**3,077**	3,208	3,269	6,799	6,458	5,975	5,544	5,380	4,963	4,588
– Total Hong Kong transport services	**16,481**	16,385	15,165	26,737	25,948	24,176	23,199	22,296	21,186	19,754
– Hong Kong property rental and management businesses	**4,779**	5,036	5,054	5,137	5,055	4,900	4,741	4,533	4,190	3,778
– Mainland China and international railway, property rental and management subsidiaries	**26,016**	25,045	21,428	21,085	20,877	17,194	13,562	12,582	12,627	13,246
– Other businesses	**363**	383	894	1,545	1,990	2,174	2,339	2,290	2,153	1,929
– Recurrent businesses	**47,639**	46,849	42,541	54,504	53,870	48,444	43,841	41,701	40,156	38,707
– Mainland China property development	**173**	353	–	–	60	6,996	1,348	–	–	–
– Total	**47,812**	47,202	42,541	54,504	53,930	55,440	45,189	41,701	40,156	38,707
Total EBITDA										
– Recurrent businesses	**7,852**	8,019	5,194	15,351	18,843	17,677	16,947	16,260	15,478	14,399
– Hong Kong property development	**11,589**	11,097	6,491	4,496	2,574	1,097	228	2,891	4,216	1,352
– Mainland China property development	**59**	129	(13)	(25)	25	2,314	366	(140)	(55)	–
– Total	**19,500**	19,245	11,672	19,822	21,442	21,088	17,541	19,011	19,639	15,751
Depreciation and amortisation	**(5,769)**	(5,430)	(5,365)	(5,237)	(4,985)	(4,855)	(4,127)	(3,849)	(3,485)	(3,372)
Impairment loss	**(962)**	–	–	–	–	–	–	–	–	–
Variable annual payment	**(323)**	(260)	(238)	(2,583)	(2,305)	(1,933)	(1,787)	(1,649)	(1,472)	(1,247)
Total EBIT										
– Recurrent business EBIT										
EBIT										
Hong Kong transport services										
– Hong Kong transport operations	**(4,733)**	(4,262)	(5,408)	(591)	1,985	1,656	2,572	2,493	2,710	2,716
– Hong Kong station commercial businesses	**2,270**	2,488	2,502	5,122	5,025	4,722	4,362	4,230	3,927	3,668
Total Hong Kong transport services	**(2,463)**	(1,774)	(2,906)	4,531	7,010	6,378	6,934	6,723	6,637	6,384
Hong Kong property rental and management businesses	**3,800**	4,048	4,185	4,264	4,225	4,082	3,912	3,650	3,427	3,092
Mainland China and international railway, property rental and management subsidiaries*	**962**	622	261	1,089	722	814	490	640	782	704
Other businesses	**(213)**	(255)	(1,670)	(2,077)	(81)	(53)	58	53	129	86
Project studies and business development expenses	**(326)**	(312)	(279)	(276)	(323)	(332)	(361)	(304)	(454)	(486)
Impairment loss	**(962)**	–	–	–	–	–	–	–	–	–
Share of profit of associates and joint ventures	**1,095**	968	605	288	658	494	537	361	121	158
Sub-total	**1,893**	3,297	196	7,819	12,211	11,383	11,570	11,123	10,642	9,938
– Property development business EBIT	**11,648**	11,226	6,478	4,471	2,599	3,411	592	2,751	4,161	1,352
– Total	**13,541**	14,523	6,674	12,290	14,810	14,794	12,162	13,874	14,803	11,290
(Loss)/gain from fair value measurement of investment properties	**(810)**	(1,616)	(9,190)	2,583	4,745	6,314	891	2,100	4,035	4,469
Profit/(loss) attributable to shareholders of the Company arising from:										
– Recurrent businesses										
– in Hong Kong	**384**	979	(1,537)	4,455	8,460	7,949	8,717	8,352	8,185	7,591
– outside Hong Kong	**(227)**	829	411	525	560	631	199	213	(161)	(154)
	157	1,808	(1,126)	4,980	9,020	8,580	8,916	8,565	8,024	7,437
– Property development businesses										
– in Hong Kong	**10,413**	9,277	5,442	4,320	2,153	916	184	2,416	3,584	1,119
– outside Hong Kong	**67**	66	65	49	90	1,019	263	(87)	(37)	–
	10,480	9,343	5,507	4,369	2,243	1,935	447	2,329	3,547	1,119
– Underlying businesses	**10,637**	11,151	4,381	9,349	11,263	10,515	9,363	10,894	11,571	8,556
– Fair value measurement of investment properties	**(810)**	(1,599)	(9,190)	2,583	4,745	6,314	891	2,100	4,035	4,469
– Total	**9,827**	9,552	(4,809)	11,932	16,008	16,829	10,254	12,994	15,606	13,025
Profit/(loss) for the year	**10,141**	9,679	(4,821)	12,092	16,156	16,885	10,348	13,138	15,797	13,208
Share Information										
Basic earnings/(loss) per share *(in HK$)*	**1.59**	1.55	(0.78)	1.94	2.64	2.83	1.74	2.22	2.69	2.25
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.72**	1.80	0.71	1.52	1.86	1.77	1.59	1.87	1.99	1.48
Ordinary dividend per share *(in HK$)*	**1.31**	1.27	1.23	1.23	1.20	1.12	1.07	1.06	1.05	0.92
Dividend payout ratio (based on underlying business profit) *(in %)*	**76**	71	173	81	65	63	67	57	53	62
Ordinary dividend proposed and declared *(in HK$ million)*	**8,124**	7,865	7,602	7,574	7,359	6,728	6,317	6,207	6,116	5,335
Share price at 31 December *(in HK$)*	**41.35**	41.85	43.35	46.05	41.20	45.80	37.70	38.40	31.80	29.35
Market capitalisation at 31 December *(in HK$ million)*	**256,455**	259,196	267,943	283,574	252,947	275,156	222,629	224,956	185,284	170,187
Consolidated Financial Position *(in HK$ million)*										
Total assets	**327,081**	292,082	290,574	289,214	274,687	263,768	257,340	241,103	227,152	215,823
Loans, other obligations and bank overdrafts	**47,846**	43,752	50,340	39,456	40,205	42,043	39,939	20,811	20,507	24,511
Obligations under service concession	**10,142**	10,231	10,295	10,350	10,409	10,470	10,507	10,564	10,614	10,658
Total equity attributable to shareholders of the Company	**179,286**	179,714	176,788	186,606	180,447	166,304	149,461	170,055	163,325	152,557
Financial Ratios										
EBITDA margin◊ *(in %)*	**16.5**	17.3	12.2	28.1	35.0	36.1	38.3	38.7	38.4	37.2
EBITDA margin◊ (excluding Mainland China and international subsidiaries) *(in %)*	**30.5**	32.7	22.1	42.0	54.5	53.5	54.0	53.3	53.1	53.4
EBIT margin$^{\varphi}$ *(in %)*	**1.8**	5.2	(1.0)	13.8	21.5	23.8	25.2	25.5	26.1	25.3
EBIT margin$^{\varphi}$ (excluding Mainland China and international subsidiaries) *(in %)*	**3.7**	7.8	(3.2)	19.3	32.8	32.2	34.8	34.8	35.4	35.6
Net debt-to-equity ratio *(in %)*	**23.3**	18.1	22.5	15.4	18.1	20.6	20.2	11.3	7.6	11.8
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**5.9**	6.3	2.4	5.1	6.5	6.7	5.9	6.5	7.3	5.8
Interest cover *(times)* **	**14.2**	14.4	8.2	14.4	13.6	15.0	12.6	14.4	15.2	11.5

* *Excluding impairment loss.*

◊ *Excluding Hong Kong property development profit from share of surplus and interest in unsold properties.*

φ *Excluding Hong Kong property development profit from share of surplus and interest in unsold properties, and share of profit of associates and joint ventures.*

** *Excluding fair value measurement of investment properties.*

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary services	**265,209**	268,050	268,492	301,552	308,742	301,541	287,828	284,487	273,771	269,141
Airport Express	**12,328**	10,165	12,631	22,971	23,190	23,202	23,276	23,242	23,232	23,216
Light Rail	**9,727**	10,245	10,385	10,592	11,139	11,145	11,152	11,034	10,728	10,554
Total number of passengers *(thousand)*										
Domestic Service	**1,334,591**	1,421,737	1,145,035	1,568,196	1,669,973	1,637,898	1,586,522	1,577,457	1,547,757	1,474,659
Cross-boundary Service	**429**	486	7,647	104,183	117,448	112,549	113,274	114,241	113,049	111,362
High Speed Rail	**–**	–	1,033	16,923	5,302@	–	–	–	–	–
Airport Express	**3,102**	2,150	3,070	15,764	17,710	16,621	16,133	15,725	14,881	13,665
Light Rail	**131,715**	141,581	111,865	155,885	179,411	178,502	178,709	176,149	174,199	171,652
Bus	**48,230**	50,380	42,077	51,484	51,025	50,744	50,413	50,537	50,404	47,738
Intercity	**–**	–	103	1,880	3,630	3,698	3,739	4,080	4,348	4,324
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**3,920**	4,189	3,406	4,658	4,862	4,772	4,608	4,577	4,490	4,297
Cross-boundary Service – daily average	**1**	1	21	285	322	308	309	313	310	305
High Speed Rail – daily average	**–**	–	36##	46	53#	–	–	–	–	–
Airport Express – daily average	**8**	6	8	43	49	46	44	43	41	37
Light Rail – weekday average	**377**	403	317	448	506	503	500	493	487	482
Bus – weekday average	**139**	145	121	151	147	146	144	145	144	137
Intercity – daily average	**–**	–	4##	5	10	10	10	11	12	12
Average passenger km travelled										
Domestic and Cross-boundary services	**10.7**	10.5	10.5	10.6	10.8	10.8	10.9	11.0	11.0	11.0
Airport Express	**25.3**	23.7	25.8	28.2	28.3	28.5	28.4	28.4	28.6	29.0
Light Rail	**2.6**	2.7	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.8
Bus	**4.5**	4.5	4.1	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary services	**54**	56	45	59	62	63	64	65	67	65
Airport Express	**6**	5	6	19	22	20	20	19	18	17
Light Rail	**36**	37	30	40	44	44	44	44	45	45
Proportion of franchised public transport boardings *(%)*	**48.3**	47.3	45.3	47.4	49.0&	49.1	48.4	48.5	48.1	46.9
HK$ per car-km operated *(Hong Kong Transport Operations***)*										
Total revenue	**40.8**	40.0	35.6	51.7	53.4	52.5	53.0	51.3	51.0	48.4
Operating costs	**36.0**	34.4	33.3	33.0	28.2	28.5	27.7	27.2	26.8	24.9
Operating profit	**4.8**	5.6	2.3	18.7	25.2	24.0	25.3	24.1	24.2	23.5
HK$ per passenger carried *(Hong Kong Transport Operations***)*										
Total revenue	**7.91**	7.31	8.11	9.40	9.26	9.10	9.06	8.73	8.52	8.31
Operating costs	**6.98**	6.28	7.60	5.99	4.89	4.93	4.73	4.63	4.47	4.27
Operating profit	**0.93**	1.03	0.51	3.41	4.37	4.17	4.33	4.10	4.05	4.04
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events^	**823**	760	656	1,164	1,056	1,148	1,134	1,246	1,327	1,408
Reportable events per million passengers carried^	**0.62**	0.53	0.57	0.69	0.58	0.65	0.66	0.73	0.79	0.88
Number of staff and contractors' staff accidents∆	**59**	56	51	81	50	46	61	64	57	67
Light Rail										
Number of reportable events^	**57**	62	80	163	87	104	191	157	122	118
Reportable events per million passengers carried^	**0.43**	0.44	0.72	1.05	0.48	0.58	1.07	0.89	0.70	0.69
Number of staff and contractors' staff accidents∆	**6**	5	10	8	2	5	8	6	4	4
Employees										
Hong Kong										
Corporate management and support departments	**1,952**	1,923	1,852	1,899	1,932	1,882	1,837	1,792	1,756	1,676
Station commercial businesses	**186**	188	224	234	204	191	192	182	170	158
Transport operations	**11,492**	11,688	11,983	12,211	11,948	11,591	11,349	10,891	10,404	10,033
Capital works	**1,428**	1,335	1,426	1,531	1,711	2,144	2,615	2,684	2,764	2,804
Property and other businesses	**1,551**	1,528	1,548	1,549	1,500	1,440	1,416	1,384	1,350	1,305
Mainland China and international businesses	**195**	201	255	318	331	276	230	194	180	182
Outside of Hong Kong										
Employees outside of Hong Kong	**15,504**	15,105	16,921	16,521	14,270	10,781	9,866	8,157	7,530	7,078
Total	**32,308**	31,968	34,209	34,263	31,896	28,305	27,505	25,284	24,154	23,236

@ *High Speed Rail service commenced on 23 September 2018.*

\# *Average of 23 September 2018 to 31 December 2018.*

\## *Average of 1 to 29 January 2020.*

& *Market share for 2018 was rebased to reflect the impact on the opening of Hong Kong – Zhuhai – Macao Bridge.*

*** *Does not include the High Speed Rail service.*

^ *Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries), that are reportable to the Secretary for Transport and Logistics and Director of Electrical and Mechanical Service, Government of the Hong Kong SAR under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.*

∆ *Any accident connected with the operation of the railway or with the maintenance thereof, which is notifiable to Railway Branch, Electrical and Mechanical Services Department according to Mass Transit Railway Regulations, as a result of which an employee of the Corporation or of a contractor with the Corporation is suffering "fatal injury", "serious injury", or unable to fully carry out his/her normal duties for a period exceeding three days immediately after the accident.*

INVESTOR RELATIONS

MTR has been participating in international capital markets for more than 40 years. Over this time, we have developed a reputation as a leader in investor relations with high standards of corporate governance and disclosure. We believe in enhancing shareholder value through clear, transparent and proactive communication of our strategies, business development and future, and we priorities the regular engagement of institutional and retail investors.

COMMUNICATING WITH INVESTORS

Our continuous engagement with the investment community has made MTR one of the most widely covered listed companies in Hong Kong. We are followed by many international and local brokers, research analysts, and a wide range of institutional investors.

MTR management makes every effort to ensure that investors have a thorough understanding of the Company's business. In 2022, we held about 100 meetings with institutional investors and analysts globally. Many of these meetings were held via online conferencing technology to maintain social distancing during the pandemic.

The Company's Annual General Meeting ("AGM") is one of its principal channels of communication with shareholders. Further details on the 2022 AGM are set out in the "Annual General Meeting" section of the "Corporate Governance Report" on page 133 of this Annual Report.

ACCESS TO INFORMATION

Our corporate website provides investors with equal and timely access to Company information. The Investor Information section provides details on our financial performance in readily accessible form. Financial reports, patronage figures, other Company news and Stock Exchange filings are all accessible on the website.

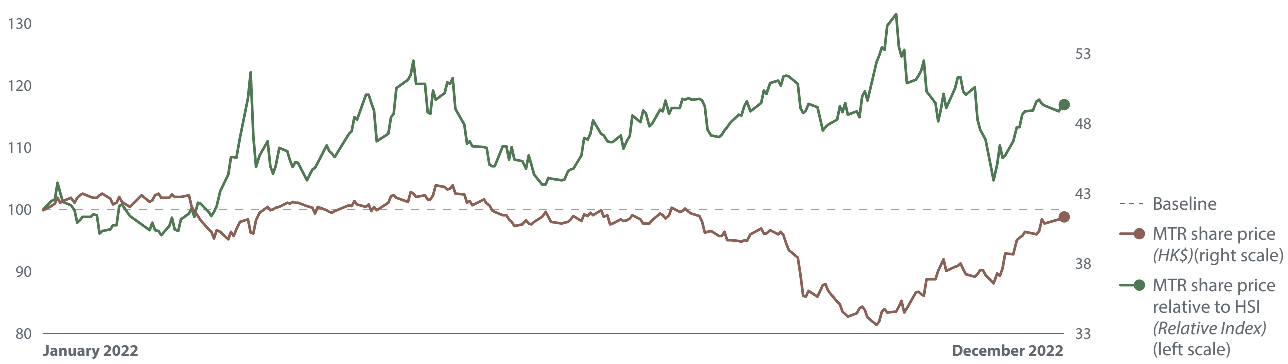
In addition to the shareholder services offered by Computershare, our dedicated hotline answered approximately 31,000 enquiries from individual shareholders in 2022.

INDEX LISTING AND RECOGNITIONS

The Company's shares have been listed on the Stock Exchange of Hong Kong since 2000, and it has been included as a Hang Seng Index constituent stock since 2001.

Our Annual Report achieves considerable recognition each year for presenting a clear picture of the Company's performance and strategy. These are listed in the "Key Awards" section on page 7 of this Annual Report.

SHARE PRICE PERFORMANCE



FINANCIAL CALENDAR 2023

Announcement of 2022 annual results	9 March
Annual General Meeting	24 May
Ex-dividend date for 2022 final dividend	29 May
Book closure period for 2022 final dividend	31 May to 5 June
2022 final dividend payment date	18 July
Announcement of 2023 interim results	August
Ex-dividend date for 2023 interim dividend	August
2023 interim dividend payment date	October
Financial year end	31 December

DIVIDEND INFORMATION

Dividend per Share

	(in HK$)
2021 Total Ordinary Dividend	1.27
2022 Interim Ordinary Dividend	0.42
2022 Final Ordinary Dividend	0.89

Dividend history can be found in the "Ten-Year Statistics" section on page 96 of this Annual Report and our corporate website.

Dividend Policy

MTR is committed to 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. The prospective dividend growth, however, remains dependent upon the financial performance and future funding needs of the Company.

SHAREHOLDINGS AS AT 31 DECEMBER 2022

Ordinary Shares

Shares outstanding	6,202,060,784 shares
Hong Kong SAR Government Shareholding	4,634,173,932 shares (74.72%)
Free float	1,567,886,852 shares (25.28%)

Market Capitalisation

As at 31 December 2022	HK$ 256,455 million

SHARE INFORMATION

Stock Codes

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK Equity

CONTACTS

Shareholder Services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong

Telephone: (852) 2862 8628
Facsimile: (852) 2529 6087

Shareholder Enquiries

Shareholders are, at any time, welcome to raise questions and request information (to the extent it is publicly available) from the Board and management by writing to the Company Secretary, MTR Corporation Limited, MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong. Any such letter from the Shareholders should be marked "Shareholders' Communications" on the envelope.

Our enquiry hotline is operational during normal office hours:
Telephone: (852) 2881 8888

Investor Relations

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong

Email: investor@mtr.com.hk

Annual Report 2022

Shareholders can obtain copies of our annual report by writing to:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong

If you are not a shareholder, please write to:
Corporate Affairs Division, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website.

Principal Place of Business and Registered Office

MTR Corporation Limited, incorporated and domiciled in Hong Kong.
MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong

Telephone: (852) 2993 2111
Facsimile: (852) 2798 8822

CORPORATE GOVERNANCE REPORT

Strong governance is critical for the Company in achieving its vision and fulfilling its purpose, and doing so in a way that delivers long term sustainable value for all of its stakeholders. This Report describes the corporate governance best practices that the Company has adopted and highlights how the Company has applied the principles of the code provisions set out in Appendix 14 (Corporate Governance Code) to the Listing Rules (the "CG Code").

The Board has the overall responsibility for effective corporate governance and for ensuring that the Company's governance framework (which is described in this Report) enables it to oversee and address environmental and social issues that are material to the operations and businesses of the Company. The Environmental & Social Responsibility Committee has strategic oversight of the Company's environmental and social strategy and is also responsible for tracking performance against the Company's environmental and social commitments and reporting to the Board on these issues. For details of its principal responsibilities and the work performed during the year, please refer to pages 108 to 109 of this Report.

To keep its stakeholders abreast of the Company's initiatives and performance in the environmental and social arenas, a separate Sustainability Report is published on an annual basis. The Sustainability Report complies with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules, has been prepared in accordance with the Global Reporting Initiative Reporting Standards, and makes reference to various international reporting standards and guidelines, including the International Association of Public Transport (UITP) Sustainability Reporting Guide, ISO 26000 Guidance on Social Responsibility and the World Economic Forum's (WEF) Stakeholder Capitalism Metrics. The Company also discloses climate-related information in line with the framework recommended by the Task Force on Climate-related Financial Disclosures (TCFD). The Company's Sustainability Report covering the period from 1 January to 31 December 2022 is available, together with this Annual Report, on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.

The Company also issues an annual Sustainable Finance Report, which is available on the Company's website (www.mtr.com.hk) and responds to CDP (previously the Carbon Disclosure project) on climate related risks, opportunities and disclosures.

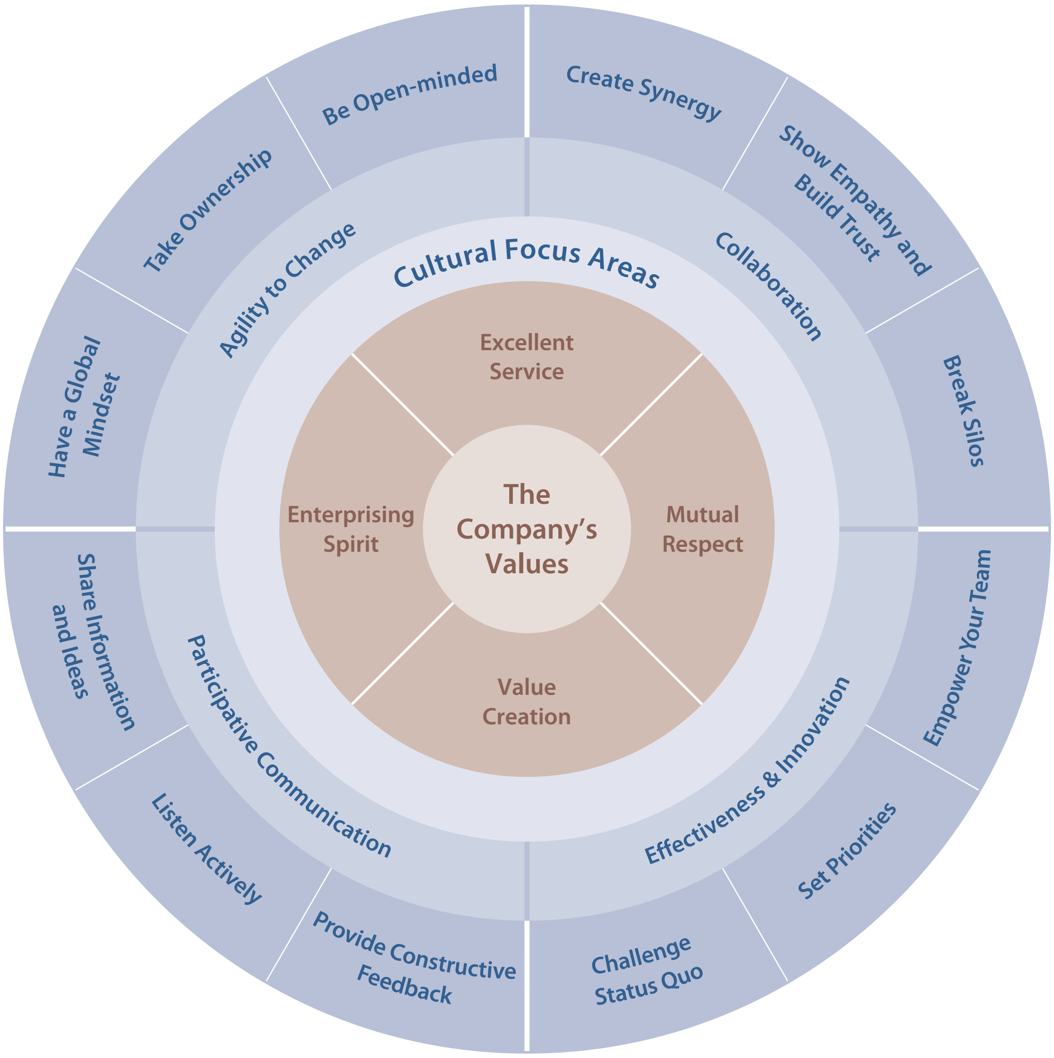
VISION, PURPOSE, CORPORATE STRATEGY, VALUES AND CULTURE

The Company's vision is to be an internationally recognised company that connects and grows communities with caring, innovative and sustainable services.

To safeguard the long-term prospects of the Company, a new Corporate Strategy – "Transforming the Future" (the "Corporate Strategy"), was adopted by the Board in mid-2020 and is being implemented by the Executive Directorate, with periodic reports to the Board. The Corporate Strategy establishes clear business priorities and social and environmental goals with a view to maintaining competitiveness and driving the sustainability of the Company's businesses, as well as creating healthy, long-term symbiotic relationships with the communities in which the Company operates. With a clearly defined purpose of "keeping cities moving", the Corporate Strategy defines a more fit-for-future organisation with a strengthened Hong Kong core, steady growth in Mainland China and internationally and powerful new growth engines – three strategic pillars so that the Company can stay competitive in a fast-changing business environment.

The Corporate Strategy is underpinned by a set of values (Excellent Service, Mutual Respect, Value Creation and Enterprising Spirit), which help to provide all staff with a clear indication of what is expected from them, from both a performance and a competency perspective. To foster a corporate culture which is aligned with the Company's vision, purpose, strategy and values, and align the mindsets and behaviours of staff to support the delivery of the Corporate Strategy, the Company has established four cultural focus areas and associated attributes.

The values and culture of the Company work hand-in-hand, as illustrated in the diagram below:



During the year ended 31 December 2022, a series of actions have been undertaken to promote the desired corporate culture, including regular reviews by the Board of the progress made in the implementation of the Corporate Strategy and the associated enablers, including (i) changing the operating model of the Company and, in particular, the organisational structure and performance management framework to transform the way of working and evaluating staff performance; (ii) promoting and enabling digitalisation and technology transformation across the Company; and (iii) embedding the social objectives and the three lines of defence model into daily operations. The Company has also provided regular training sessions aimed at strengthening different aspects of the corporate culture, which were attended by over 3,500 participants in 2022.

The Company values all feedback received, whether through more formal channels or through interactive communication sessions carried out by Members of the Executive Directorate, who host town hall forums, management communication meetings and informal meetings with different groups of employees for them to share their views and ideas. Following the Employee Engagement Survey ("EES") conducted by an independent consulting firm engaged by the Company for employees in Hong Kong and wholly-owned subsidiaries outside Hong Kong in December 2021, ten taskforces with over 80 taskforce members at both the corporate and business unit/function level have been set up for the purpose of formulating and implementing over 120 EES follow-up actions during the year. For continuous engagement and to understand the feedback from employees after the implementation of the EES follow-up actions, a pulse survey was conducted in December 2022 to which over 9,000 eligible colleagues responded. The results of this pulse survey, together with the information provided through other forums, will provide important input to allow the Company to steer the continued implementation of the Corporate Strategy and ensure alignment between the Corporate Strategy and the Company's vision, purpose, values and culture.

For more details about the Company's approach to human capital management, including how the corporate culture is nurtured, as well as how the Company approaches equal employment opportunities and diversity and inclusion, please refer to the Sustainability Report.

CORPORATE GOVERNANCE PRACTICES

Corporate governance is the collective responsibility of the Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board actively seeks opportunities for continuous improvement in the area of corporate governance and takes prompt action in responding to identified improvement opportunities.

With effect from 1 January 2022, the CG Code was updated, with the new provisions applicable to financial years commencing on or after 1 January 2022. The Company is and, in most cases, has been compliant for a number of years with the new requirements as highlighted below:

New Requirements	Highlights of the Company's Practices
1. Culture	
a. To require board to align the company's culture with its purpose, values and strategy	Please refer to the Vision, Purpose, Corporate Strategy, Values and Culture section (pages 100 to 102 of this Report).
b. To establish anti-corruption and whistle-blowing policies	• The Company has issued different in-house Corporation General Instructions ("CGIs") to staff. The CGI relating to Prevention of Bribery and Illegal Acceptance/Offer of Advantages has been in issue since the Company's incorporation and has been supplemented by subsequent CGIs relating to Conflicts of Interest and Conflicts of Interests – Disclosure Requirements. The Company conducts regular reviews to keep abreast of the latest governance developments and new or updated CGIs are issued from time to time as required. Highlights of the relevant instructions are also referred to in the Company's Code of Conduct which is available on the Company's website (www.mtr.com.hk). • The Company first formally established a whistle-blowing process in 2012 through the issue of a CGI, which was last updated in 2019. The whistle-blowing channel is open to all staff, parties who deal with the Company as well as the general public. The Company has also adopted a Whistle-blowing Policy which is available on the Company's website (www.mtr.com.hk).
2. Board independence and refreshment	
a. To ensure independent views are available to the board	• The Company's Nomination Policy (which was updated in March 2022 and is reviewed by the Nominations Committee at least annually) includes "the need for a strong independent element on the Board" as one of the selection parameters for consideration when evaluating proposed candidates for appointment to the Board. • The Board has maintained a supermajority of Independent Non-executive Directors of the Company ("INED") with diversified backgrounds for many years to ensure a wide spectrum of independent views are expressed at the Board.

New Requirements	Highlights of the Company's Practices
2. Board independence and refreshment *(continued)*	
b. Additional disclosures on factors considered, process and the Board or Nomination Committee's discussion in arriving at determination that the Long Serving INED (i.e. INED serving more than nine years) is still independent and should be re-elected	Since 2015, the Nominations Committee has adopted a practice that justification for nominating a Member of the Board (excluding Directors nominated by Government) who has completed three consecutive terms of service (each of three years) for re-appointment should be clearly specified. Such practice has been formalised in the Nomination Policy, which also provides that for an INED who has completed three consecutive terms of service (each of three years), a recommendation from the Nominations Committee for his/her re-appointment shall include the reason(s) why such INED is still considered to be independent and should be re-appointed, including the factors considered, the process and the discussion of the Nominations Committee in arriving at such determination.
c. No equity-based remuneration with performance-related elements to INEDs	INEDs' fees are determined primarily by benchmarking against the market and do not involve any equity-based remuneration with performance related elements.
3. Diversity	
• No single gender board • Gender diversity targets at board level • To review board diversity policy	• As at 31 December 2022, the Board has four female Members, representing approximately 21% of the Board. In March 2022, the Board amended the Company's Board Diversity Policy (the "BD Policy") (which was first adopted in 2013 and is available on the Company's website (www.mtr.com.hk)) to include a commitment to maintain an appropriate level of female Members on the Board, which shall not be less than 20% with immediate effect and 25% by 2025. • The Nominations Committee reviews the BD Policy annually to ensure its continuing appropriateness and effectiveness.
4. Nomination Committee	
Chaired by an INED and comprising a majority of INEDs	As at 31 December 2022, the Company's Nominations Committee was chaired by an INED and the other six members were made up of three NEDs and three INEDs.
5. Communications with shareholders	
Shareholders communication policy and annual review	The Shareholders' Communication Policy of the Company was introduced in 2012 and was last updated in January 2022. The Policy is available on the Company's website (www.mtr.com.hk) and is reviewed by the Board on an annual basis to ensure its effectiveness.
6. Other enhancement	
To disclose directors' attendance in the poll results announcements	The Company has disclosed the attendance of its Board Members at the Annual General Meeting of the Company held on 25 May 2022 (the "2022 AGM") in the poll results announced on the same day, which are also available on the Company's website (www.mtr.com.hk).
7. Elaborate the linkage between Corporate Governance and Environmental, Social and Governance ("ESG")	
To elaborate the linkage between Corporate Governance and ESG (the "Linkage")	The Company has elaborated the Linkage in the Corporate Governance Report starting from the 2021 Annual Report.
8. Timely disclosure of ESG report	
To publish ESG reports at the same time as publication of annual reports	The Company's Sustainability Report and Annual Report have been uploaded on the websites of the Company and the Stock Exchange on the same day since 2020.

CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2022, the Company has complied with the code provisions as set out the CG Code. In the following corporate governance areas, the Company's practices have exceeded the relevant CG Code/Listing Rules requirements:

Corporate Governance Areas	Details of Exceedance
Number of INEDs	The number of INEDs represents more than two-thirds of the Board, which exceeds the independence requirement under the Listing Rules
Number of INEDs in Audit & Risk Committee (formerly known as Audit Committee)	The Audit & Risk Committee consists of five INEDs, which exceeds the independence requirement under the Listing Rules
Number of Regular Board Meetings	The Company holds seven Regular Board Meetings each year and Special Board Meetings are held as and when required, which exceeds the requirement under the CG Code
Notice of Regular Board Meetings	The dates of Regular Board Meetings for the following year are usually fixed in the third quarter of the preceding year
Model Code Confirmation	• Confirmation of Compliance with the Model Code is obtained from each Director and Model Code Manager (as defined under the section "Model Code for Securities Transactions by Directors of Listed Issuers") every half-year • An electronic platform has been established to give one-stop access to the relevant key processes to support compliance with the Model Code
Evaluation of the Effectiveness of Risk Management System	• The Company reviews not only the effectiveness of the risk management system of the Company and its subsidiaries, but also that of its key associates operating in Mainland China and overseas • The Company has established a risk-based Three Lines of Defence framework to ensure appropriate focus is applied to relevant risks and provide recommendations to address identified gaps and inefficiencies

The Company continues to monitor developments in the arena of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of stakeholders.

THE BOARD OF DIRECTORS

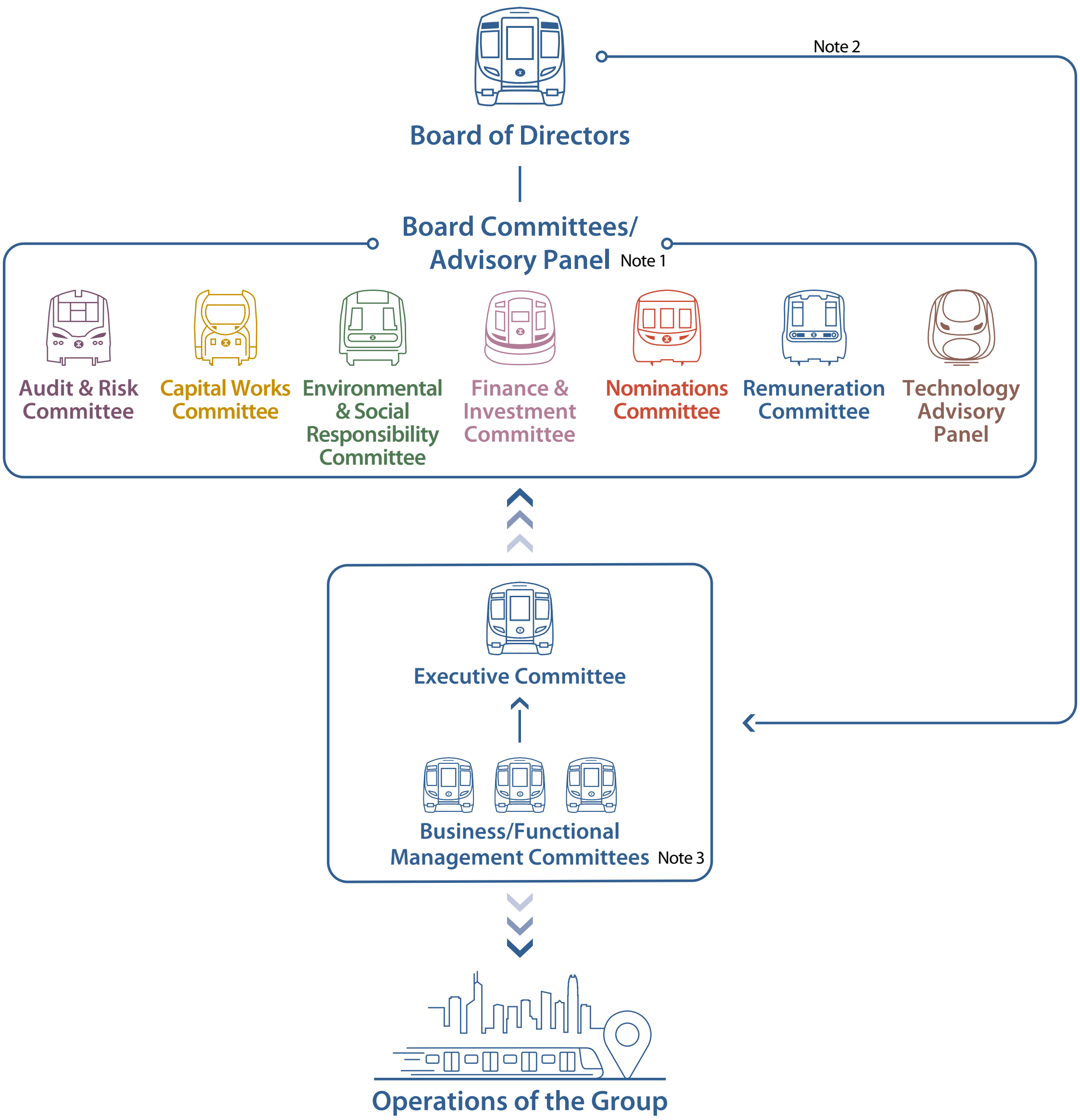
Overall Management

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the "Protocol: Matters Reserved for the Board" (the "Protocol") adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, corporate governance, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policies, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, corporate governance functions, risk management and internal control systems, treasury policies and fare structures. The Board reviews the delegation arrangement periodically.

Following the restructuring of the Board Committees and a review of the Protocol in late 2021 and January 2022, the Protocol was updated such that the Board reserves the right to delegate any decision-making powers reserved by it in accordance with the Protocol to any of the Board Committees in existence from time to time (whether or not such delegation is expressly referred to in the Protocol).

To enable the Board to maintain adequate oversight, the Board receives updates and briefings on matters that have a significant impact on the Company's operations and businesses on a regular basis, supplemented by ad hoc reporting as and when required.

Below is a diagram of the governance structure of the Company:



Notes:

1. *All Board Committees/Advisory Panel(s) are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense to perform their responsibilities. The terms of reference of each Board Committee/Advisory Panel are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.*
2. *The Executive Committee is delegated by the Board to handle the day-to-day management of the Company's business pursuant to the Articles of Association and the Protocol and is chaired by the Chief Executive Officer ("CEO") and made up of nine other Members of the Executive Directorate.*
3. *Business/Functional Management Committees are set up to assist the Executive Committee in the management and control of the Company's various core businesses and functions.*

Composition of the Board

A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 150 to 162 of this Annual Report.

As at the date of this Report, the Board has 19 Members, made up of 13 INEDs, five Non-executive Directors ("NEDs") and one Executive Director. This structure ensures that the Board is comprised of a majority of independent members, which is conducive to maintaining an independent and objective decision-making process.

Government, through The Financial Secretary Incorporated, held approximately 74.72% of the issued shares of the Company as at 31 December 2022, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of his right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

- The office of the Secretary for Transport and Logistics (currently held by Mr Lam Sai-hung);
- The office of the Permanent Secretary for Development (Works) (currently held by Mr Ricky Lau Chun-kit); and
- The office of the Commissioner for Transport (currently held by Miss Rosanna Law Shuk-pui).

The Additional Directors are all NEDs and are treated for all purposes (other than the requirement to retire by rotation according to the Articles of Association) in the same way as other Directors and are, therefore, subject to the usual common law duties of directors, including the requirement to act in the best interests of the Company.

Mr Christopher Hui Ching-yu, the Secretary for Financial Services and the Treasury, is another NED of the Company.

Coming from diverse business and professional backgrounds, Members of the Board actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. In addition, the INEDs also contribute to ensuring that the interests of all stakeholders of the Company are taken into account by the Board and that relevant issues are subject to objective and dispassionate consideration by the Board.

Chairman and CEO

The posts of the Chairman and the CEO are distinct and separate. Their respective roles and responsibilities are set out below:

Chairman
(Non-executive Director)

- Chairing and managing the operations of the Board;
- Monitoring the performance of the CEO and other Members of the Executive Directorate;
- Making sure that adequate information about the Company's business is provided to the Board on a timely basis;
- Providing leadership for the Board and promoting a culture of openness;
- Ensuring views on all issues are exchanged by all Members of the Board in a timely manner;
- Encouraging Members of the Board to make a full and effective contribution to the discussion at Board Meetings; and
- Establishing good corporate governance practices and procedures.

CEO
(Executive Director)

- Head of the Executive Directorate;
- Chairman of the Executive Committee;
- Responsible to the Board for managing the business of the Company; and
- Responsible for performing a bridging function between the Board and the Executive Directorate.

Board Evaluation Exercise

As mentioned in the 2021 Annual Report, a Board evaluation exercise was conducted by an external consultant in 2021, focusing on the Board's engagement, communication, structure and composition.

The recommendations from the said exercise led to a restructuring of the Company's Board Committees and a revamping of their terms of reference with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the Corporate Strategy. On 11 January 2022, the Board approved (i) the establishment of the Finance & Investment Committee and the Technology Advisory Panel; (ii) changes to the Company's existing Board Committees, namely, the renaming of and revision of the terms of reference of the then Audit Committee to become the Audit & Risk Committee, the disbanding of the then Risk Committee ("the then RiskC") and the renaming of and revision of the terms of reference of the then Corporate Responsibility Committee ("the then CRC") to become the Environmental & Social Responsibility Committee; and (iii) the appointment of members/changes to the composition of the relevant Board Committees and Advisory Panel, all with effect from 1 February 2022.

A summary of the changes to the Board Committees/ Advisory Panel is set out below:

Before Restructuring	After Restructuring
Audit Committee	Audit & Risk Committee
Capital Works Committee	Capital Works Committee
Corporate Responsibility Committee	Environmental & Social Responsibility Committee
Nominations Committee	Nominations Committee
Remuneration Committee	Remuneration Committee
Risk Committee	Finance & Investment Committee *(New)*
	Technology Advisory Panel *(New)*

More details about the new Finance & Investment Committee are set out in its report on page 144 of this Annual Report, and the new Technology Advisory Panel are provided on page 109 of this Report.

As part of the implementation of the other recommendations arising from the Board evaluation exercise (i) the financial delegation from the Board to the Executive Committee was revised with effect from 1 February 2022; and (ii) the Nominations Committee held an additional meeting in October 2022 specifically to discuss Board succession.

Board Committees/Advisory Panel(s)

The Board discharges some of its responsibilities through delegation, with appropriate oversight, to respective Board Committees and Advisory Panel(s). The memberships of Board Committee and Advisory Panel and the attendance record of each Member of the Board in 2022 are set out on pages 120 to 122 of this Report.

The duties and work performed by the Audit & Risk Committee, Capital Works Committee, Finance & Investment Committee and Remuneration Committee during the year are set out in their respective reports in this Annual Report:

- "Audit & Risk Committee Report" on pages 135 to 137;
- "Capital Works Committee Report" on page 143;
- "Finance & Investment Committee Report" on page 144; and
- "Remuneration Committee Report" on pages 145 to 149.

Nominations Committee

The Nominations Committee consists of seven NEDs, four of whom are INEDs. The Chairman of the Committee is an INED. Its terms of reference, as updated in February 2022, are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Principal responsibilities:

- Reviewing the structure, size and composition (including the perspectives, skills, diversity, knowledge and experience) of the Board, the appropriateness and effectiveness of the BD Policy and Nomination Policy, as well as the adequacy and appropriateness of the list of skillsets of the Board at least annually and making recommendations to the Board to complement the Company's corporate strategy and for succession planning purposes;
- Identifying individuals suitably qualified to become Members of the Board and putting forward nominations or recommendations to the Board for proposed appointments to the Board;
- Assessing the independence of INEDs and, in case a proposed director will be holding his/her seventh (or more) listed company directorship, his/her ability to devote sufficient time to Board matters;
- Making recommendations to the Board on the appointment or re-appointment of Members of the Board and succession planning for Members of the Board; and
- Nominating and recommending to the Board candidates for filling the positions of CEO, Finance Director and Chief Operating Officer (provided that the Chief Operating Officer position exists).

During the year, the Committee conducted reviews, discussed and, where applicable, made corresponding recommendations to the Board in respect of the following matters:

- Annual review of the structure, size and composition of the Board, and proposed amendments to the Nomination Policy, BD Policy and the list of skillsets;
- Annual assessment of the independence of each INED;
- Re-election of Members of the Board retiring at the 2022 AGM;
- Proposed nomination of new Members of the Board for election by shareholders at the 2022 AGM; and
- Succession planning for the Board.

As at the date of this Report, the Nominations Committee has conducted, inter alia, (i) another annual review of the size, structure and composition (including skills/experience/perspectives) of the Board and consider the same is appropriate in light of the Company's strategy and business needs and the list of skillsets of the Board; (ii) an annual assessment of the independence of each INED; and (iii) re-election of the retiring Members of the Board and proposed nomination of new Members of the Board for election at the 2023 Annual General Meeting of the Company (the "2023 AGM"). The Nominations Committee has also concluded that the Board (1) currently possesses a balanced mix of skills, experience and diversity of perspectives; (2) is in line with the Company's BD Policy; and (3) is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner.

Environmental & Social Responsibility Committee

Following the Board Committee restructuring, with effect from 1 February 2022, the Corporate Responsibility Committee was renamed as the Environmental & Social Responsibility Committee. Its terms of reference, as updated in February 2022, are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

As at the date of this Report, the Environmental & Social Responsibility Committee consists of seven members, made up of three INEDs, one NED and three Members of the Executive Directorate. The Environmental & Social Responsibility Committee is chaired by the Chairman of the Company.

After the Board Committee restructuring, the principal responsibilities of the Committee include:

- Engaging in any activity and acting as an advisor to the Board in respect of matters falling within the Committee's terms of reference;
- Approving the Company's environmental and social ("E&S") strategy;
- Overseeing the setting and achievement of targets under the Company's E&S strategy;

- Monitoring and overseeing the Company's E&S (including safety) performance and the related frameworks and initiatives;
- Approving E&S investments by the Company in excess of the thresholds set by the Board, in accordance with the Company's E&S investment framework;
- Overseeing the Company's stakeholder engagement strategy;
- Identifying emerging corporate responsibility and sustainability issues arising from external trends;
- Reviewing the Company's annual Sustainability Report and recommending endorsement by the Board; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Please also refer to the "Environmental & Social Responsibility" section (pages 72 to 79) of this Annual Report.

Work performed during the year:

- Monitored the advancement of the Environmental and Social Objectives of Social Inclusion, Greenhouse Gas Emissions Reduction and Advancement & Opportunities;
- Reviewed and recommended the 2021 Sustainability Report to the Board for approval;
- Considered the Company's performance on various local and international sustainability indices;
- Endorsed a Carbon Reduction Study;
- Endorsed an E&S Investment Framework; and
- Monitored the progress of various youth, elderly and district-level community engagement and investment programmes.

As at the date of this Report, the Environmental & Social Responsibility Committee has conducted, inter alia, a review of the adequacy of the Company's resources for ESG performance and reporting. For more information, please refer to the "Evaluation of the Adequacy of Resources of the Company's Accounting, Financial Reporting and Internal Audit Functions and for ESG Performance and Reporting" under the section headed the "Risk Management and Internal Control Systems" (pages 127 to 128) of this Report. Going forward, this review will be carried out on an annual basis.

Technology Advisory Panel

The Technology Advisory Panel is a panel of the Company established on 1 February 2022. As at the date of this Report, the Panel consists of three members of the Board, of which two are INEDs, and an external advisor. The Chairman of the Panel is an INED. The terms of reference of the Panel are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Principal responsibilities:

- Reviewing and providing input and direction to the setting and implementation of the Company's digital strategy and "Engine 2" strategy, the Company's long-term technological development plans and implementation schemes, as well as the Group's cyber security positioning; and
- Reviewing relevant digital trends, new technologies and cyber security developments and incidents and making recommendations to the Company's Executive Directorate and, where appropriate, the Board on further developing the Company's digital strategy and cyber security positioning.

Work performed during the year:

The Panel reviewed and provided guidance on the following key matters:

- the technology governance model of the Company;
- the technology plan of a major business unit;
- the digital plan of a business unit;
- the progress of cyber security work, including initiatives, security audits and horizon scanning of incidents;
- the digital and enterprise architecture strategy; and
- updates on major digital and innovation projects.

Company Secretary

Ms Gillian Elizabeth Meller, being the Legal and Governance Director and a Member of the Executive Directorate, reports to the CEO. Her role as the Company Secretary includes:

- Providing access to advice and services for Members of the Board;
- Ensuring the correct Board procedures are followed;
- Advising the Board on all corporate governance matters;

- Arranging for Members of the Board, their Alternate Directors and Members of the Executive Directorate, upon their appointment, to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules;
- Recommending Members of the Board, their Alternate Directors and Members of the Executive Directorate to attend relevant seminars and courses; and
- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2022, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

Appointment, Re-election and Removal of Members of the Board

A person may be appointed as a Member of the Board at any time either by:

- the shareholders in general meeting in accordance with the "Appointment Procedures for Members of the Board of the Company", which is available on the website of the Company (www.mtr.com.hk); or
- the Board upon the recommendation of the Nominations Committee of the Company; or
- the Chief Executive of the HKSAR in the case of the Additional Directors.

Members of the Board who are appointed by the Board during a year must retire at the first annual general meeting after their appointment and are eligible for election at that meeting.

Except for the Additional Directors, all other Members of the Board are required to retire by rotation. At each annual general meeting of the Company, Members of the Board who were last elected or re-elected at the annual general meeting which was held in the third calendar year prior to the annual general meeting in question, are those who will retire by rotation.

The Additional Directors may not be removed from office except by the Chief Executive of the HKSAR and are not subject to any requirement to retire by rotation.

The Company has a service contract with each of the NEDs (with the exception of the Additional Directors) and the INEDs, specifying the terms of his/her continuous appointment as a NED or an INED and as the chairman or a member of the relevant Board Committee(s)/ Advisory Panel.

Nomination Policy

A Nomination Policy (the "Nomination Policy") documenting the procedures and practices that are adopted by the Company, is posted on the Company's website (www.mtr.com.hk).

The Nomination Policy sets out the process and procedures for governing the nomination of Members of the Board applicable to both new appointments and re-appointments, except for appointments made by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance and nomination by shareholders of the Company in accordance with the Articles of Association.

The Board has delegated to the Nominations Committee the authority to identify and assess potential candidates for appointment to the Board through different means and channels, including recommendations from Members of the Board, use of external search firms and any other means or channels that it deems appropriate. To ensure an appropriate level of refreshment of views at the Board, recommendations from the Nominations Committee to the Board are required to set out justifications for re-appointing a Member of the Board who has completed three consecutive terms of service (each of three years); in addition, for an INED who has completed three consecutive terms of service (each of three years), a recommendation from the Nominations Committee for his/her re-appointment shall include the reason(s) why such INED is still considered to be independent and should be re-appointed.

Nomination Procedures

The following diagram demonstrates the nomination procedures for new appointments and re-elections of Members of the Board:

Nominations Committee

New Appointment

- Request the candidate to provide his/her biographical information and other information deemed necessary
- Review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required
- Invite the candidate to meet with the Nominations Committee members, at their discretion, to assist them in their consideration of the proposed nomination or recommendation
- For INED appointment, the independence of a candidate would be assessed by reference to the independence requirements under the Listing Rules
- Submit nomination proposal to the Board for consideration and approval or to make recommendation to the shareholders for approval

Re-election

- Review the profile of the Member of the Board (including independence in case of INED) who has offered himself/herself for re-appointment to consider his/her suitability in light of the strategy of the Company as well as the structure, size and composition of the Board at that time
- Make recommendation for the Board's consideration

Board

New Appointment

Consider recommendation from the Nominations Committee and approve the appointment during the year

Note

Re-election

Consider recommendation from the Nominations Committee and make recommendation to the shareholders for election (re-election) of the Member of the Board

Shareholders

Approve the election and/or re-election of new/existing Member of the Board at the Company's annual general meeting

Note: Any Member of the Board appointed during the year is subject to election by the shareholders at the next following annual general meeting.

Selection Parameters

In evaluating a proposed candidate, including a Member of the Board eligible for re-appointment, the Nominations Committee will consider the following factors (which are by no means exhaustive):

- the strategy of the Company;
- the structure, size, composition and needs of the Board and its respective Board Committees at the time (including the number of INEDs on the Board), taking into account succession planning and the diversity of the Board, where appropriate;
- the required skills, which should be complementary to those of the existing Members of the Board;
- the BD Policy of the Company as adopted/amended by the Board from time to time;
- any information obtained through third party references or background checks;
- any other factors that may be used as reference in assessing the suitability of a proposed candidate, including but not limited to the candidate's reputation for integrity, qualifications, accomplishments, likely commitment in terms of time and interest and expected contribution to the Company;
- if a proposed candidate will be holding his/her seventh (or more) listed company directorship, the candidate's ability to devote sufficient time to the Board;
- the need for a strong independent element on the Board; and
- the independence of a candidate proposed to be appointed as an INED, in particular by reference to the independence requirements under the Listing Rules.

The Nominations Committee is vested with discretion to take into account such other factors that it may consider appropriate.

The Nominations Committee will review the implementation of the Nomination Policy at least annually, including the mechanisms for ensuring independent views and input are available to the Board, and make recommendations on any proposed changes to the Board for the Board's review and approval to ensure its effectiveness.

Diversity

The Company is well aware of the benefits of diversity from the perspectives of, inter alia, creativity, innovation and decision making, and has a number of initiatives underway as part of the social inclusion pillar of its E&S strategy.

Board Level

As at 31 December 2022, the Board had four female Members, representing approximately 21% of the Board. In March 2022, the Board committed the Company to maintaining an appropriate level of female Members on the Board, which shall not be less than 20% with effect from that date and 25% by 2025.

The Company first adopted a BD Policy in 2013 and a regular review of the policy is conducted by the Nominations Committee. The latest BD Policy, updated in March 2022, is available on the Company's website (www.mtr.com.hk).

The BD Policy provides that the Company should endeavour to ensure that the Members of the Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. A summary of the BD Policy is set out below:

- the Company is committed to equality of opportunity in all aspects of its business and does not discriminate on the grounds of race, gender, disability, nationality, religious or philosophical belief, age, sexual orientation, family status or any other factor;
- a diversity of perspectives can be achieved through consideration of a number of factors, including but not limited to skills, regional and industry experience, background, race, gender and other qualities. In informing the Company's perspective on diversity, its own business model and specific needs from time to time will also be taken into account; and
- the Company is committed to maintaining a Board made up with INEDs as the majority, together with an appropriate level of female Members on the Board, which shall not be less than 20% with immediate effect and 25% by 2025.

As at the date of this Report, the Board through the Nominations Committee has reviewed the implementation of the BD Policy to ensure its appropriateness and effectiveness.

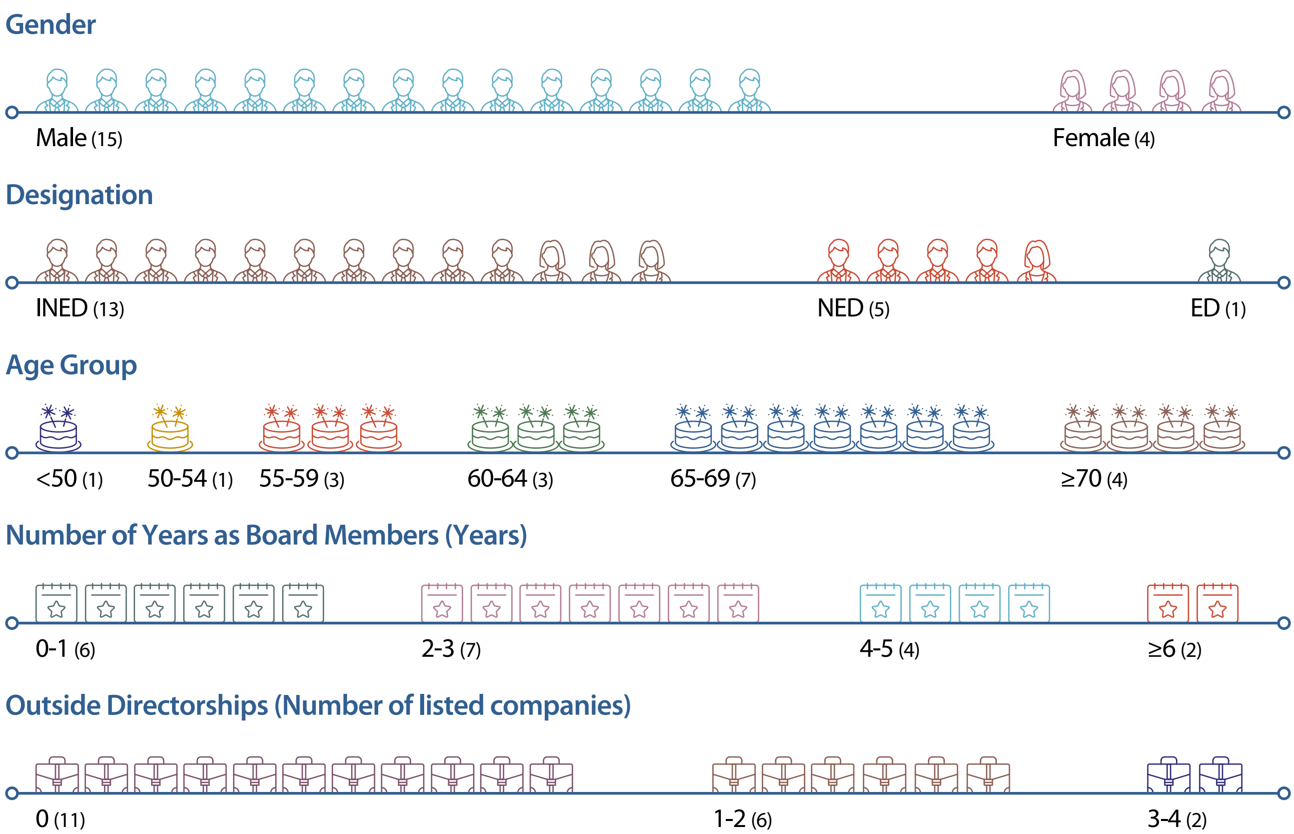
While conscious efforts are being taken by the Company to fulfil its pledges, all appointments will continue to take into account the Company's Nomination Policy and ultimately be made on a merit basis taking into account available and suitable candidates.

The BD Policy and the list of skillsets were taken into account by the Nominations Committee and the Board in considering the following new appointments during the year:

- Mr Sunny Lee Wai-kwong as an INED; and
- Mr Carlson Tong as an INED.

The Committee and the Board formed the view that, with Mr Lee's rich experience in business and technology management in both Hong Kong and overseas and Mr Tong's significant experience in the capital markets, corporate governance and regulatory compliance fields, each of them would be a valuable addition to the Board and would further enrich the spectrum of skills, experience and diversity of perspectives on the Board, thereby enhancing the diversity and effectiveness of the Board.

The current diversity of the Board can be seen in the below diagram:



Board Skills

During the year, the Nominations Committee reviewed the appropriateness of the list of skillsets and considered that Board Members' individual experience (past and current) spanning across different sectors (including public bodies, private companies, charitable organisations and Government authorities) has enriched the diverse perspectives of the Board, while collectively providing a reservoir of balanced skills that supports the Company's strategic needs.

The list of skillsets of the Members of the Board covers the following key areas:

- business related experiences including risk management, human resources management, strategic planning, multi-national companies experience, and passenger/customer perspectives;
- compliance related experiences including listed company experience, and environment, social and governance matters;
- industry related experiences including railway operations, engineering, construction and infrastructure, property development, planning/urban development, commercial/business operations and overseas business growth and management;
- professional expertise including accounting and finance, engineering, legal and regulatory;
- public administration including Government liaison, Hong Kong political environment, government relations in Mainland China, and public affairs/ communications; and
- technology, particularly in the areas of digital and cyber security.

Workforce Level

"Diversity and Inclusion" ("D&I") is one of the ten commitments under the Company's E&S Objectives, under which the Company commits to eliminating discrimination in its practices and policies and increasing the diversity of its workforce.

The Company has achieved several D&I related key performance indicators in 2022. For instance, three initiatives aimed at enhancing workforce diversity were organised in collaboration with NGOs and around 230 Diversity, Equity and Inclusion ("DEI") training events for staff were organised. In addition, a review of the DEI clauses in the Code of Conduct and Equal Opportunities Policy has been completed and the revised Code of Conduct was released to all staff in February 2022. Also, 9% of the Company's summer interns recruited were ethnic minorities or persons with disabilities, which is higher than the target of 8%. Meanwhile, workplace inclusiveness has also been enhanced in 2022 through: (1) the establishment of a women's network; and (2) the review of the language requirements for ten job positions.

For the gender distribution of the workforce (including the senior management) in 2022, please refer to the information disclosed in the 2022 Sustainability Report.

INED INDEPENDENCE AND STATUTORY CONFIRMATIONS

For the year ended 31 December 2022, the Company has received an annual confirmation from each INED about his/her independence and, where applicable, the interests of his/her immediate family member(s) (as defined under the Listing Rules). The Nominations Committee has reviewed the said confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

As at the date of this Report, the Board, through the Nominations Committee, has reviewed the implementation and effectiveness of the below mechanisms to ensure that independent views and input are available to the Board.

Structure	The number of INEDs represents more than two-thirds of the Board, which exceeds the independence requirement under the Listing Rules.
INED's tenure	For an INED who has completed three consecutive terms of service (each of three years), a recommendation from the Nominations Committee for his/her re-appointment shall include the reason(s) why such INED is still considered to be independent and should be re-appointed.
Time commitment	Each Member of the Board is required to ensure that he/she can give sufficient time and attention to the affairs of the Company and contribute to the development of the Company's strategy and policies through independent, constructive and informed comments. The attendance record of each Member of the Board during the year is set out on pages 120 to 122 of this Report.
Overboarding	• All Members of the Board (including INEDs) have disclosed to the Company in a timely manner the number and nature of offices held by them in public companies or organisations and other significant commitments, as well as their identity and the time involved. • There is no overboarding issue (i.e. holding of seven or more listed company directorships).
Cross-directorship	Certain Members of the Board have common directorships as INEDs in the Company and other companies/bodies. The Nominations Committee has assessed the said cross-directorships and confirmed that they should not undermine the independence of the relevant INEDs.
Interest in the shares of the Company	None of the INEDs, nor any of their family members, holds more than 1% of the total number of the issued shares of the Company.

Save as disclosed in this Annual Report, none of the Members of the Board or the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) with another Member of the Board or the Executive Directorate or holds any cross-directorships. In addition, none of the Members of the Board holds seven (or more) directorships in listed companies (including the Company) or has significant links with other Members of the Board through involvements in other companies or bodies as at 31 December 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that all Members of the Board and (where applicable) their Alternate Directors and all Members of the Executive Directorate have complied with the Model Code throughout the year.

Senior managers, other nominated managers and staff who, because of their office in the Company, may be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) of the Company (collectively the "Model Code Managers"), have also been requested to comply with the provisions of the Model Code.

For enhanced monitoring and effectiveness, the Company has implemented an electronic platform "Model Code Managers Management System" to provide one-stop access to the relevant key processes to support compliance with the Model Code. Periodic training is also required to be completed by Model Code Managers, with the latest training being provided in February 2023.

DIRECTORS' INSURANCE

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' ("D&O") Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the

Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2022 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

CORPORATE GOVERNANCE FUNCTIONS REVIEW

During the year, the Board conducted an annual review of its Corporate Governance duties in accordance with its terms of reference on Corporate Governance Functions. Below is a summary of the work performed during the year ended 31 December 2022:

- Reviewed the purpose, values and strategy established by the Company;
- Developed and reviewed the Company's policies and practices on corporate governance, including the corporate governance framework, the BD Policy and the Nomination Policy;
- Reviewed and monitored the training and continuous professional development of Members of the Board and senior management;
- Reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- Developed and reviewed and monitored the Code of Conduct and Directors' Manual; and
- Reviewed the Company's compliance with the CG Code.

As at the date of this Report, the Board has reviewed the Company's culture to ensure alignment with the Company's purpose, values and strategy and has also reviewed the implementation and effectiveness of the Shareholders' Communication Policy.

The Board considers that, overall, the Company's Corporate Governance Functions remain adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

The terms of reference on Corporate Governance Functions updated in January 2022 are available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

BOARD PROCEEDINGS

The Board generally meets in person regularly. In light of the prolonged Coronavirus Disease 2019 ("COVID-19") pandemic situation, electronic means have also been provided to Members of the Board to facilitate them to participate in meetings virtually, which is permissible under the Articles of Association. The same arrangements also applied to meetings of Board Committees and Executive Committee meetings. The Company's introduction of an electronic meeting solution for Board meetings and Executive Committee meetings in 2017, which has subsequently been expanded to meetings of Board Committees, has also enabled all Members of the Board, Board Committees and the Executive Committee to access meeting documents and join virtual meetings remotely in a secure, efficient and convenient manner.

All Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary. Members of the Board also have full access to Members of the Executive Directorate as and when they consider necessary.

The draft agenda for Board meetings is prepared by the Company Secretary and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Company Secretary not less than one week before the relevant Board meeting if they wish to include a matter in the agenda of the meeting. The agenda, together with Board Papers, are usually sent at least three days before the intended date of the Board meeting.

The Board meeting dates for the following year are usually fixed by the Company Secretary with the agreement of the Chairman, before communicating with other Members of the Board, in the third quarter of each year.

At regular Board meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business.

The CEO Report, provided to the Board on a monthly basis, covers the overall strategies, progress updates on the Company's transformation and Corporate Strategy implementation as well as innovation and technology implementation, principal issues (including topical issues such as the impact of the pandemic on the Company's business in different jurisdictions) and key events of the Company for the relevant month and provides key information in areas such as the Group's safety performance in different business sectors, financial activities, contingent liabilities, human resources developments, new railway projects and most recently highlights of asset maintenance works, as well as a look ahead to key issues or events in the following three to six months. This CEO Report together with the discussions at Board meetings, ensures that Members of the Board have an overall understanding of the Company's business and other key information about the Company, and provides up-to-date information to enable them to make informed decisions for the benefit of the Company.

MATERIAL INTERESTS AND VOTING

All Members of the Board and the Executive Directorate are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the Company's shareholders as a whole. To this end, all of them are required to declare the nature and extent of their interests, if any, in any contract, transaction, arrangement or other proposal to be considered by the Board at Board meetings.

In addition, before each regular Board meeting, the Company reminds each Member of the Board to update his/her "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration"). The Declaration of each Alternate Director is sent to him/her for update on a quarterly basis. Also, each Member of the Board and each Alternate Director is required to confirm his/her other directorships, major appointments and interests to the Company twice a year.

Unless specifically permitted by the Articles of Association, a Member of the Board cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he/she has an interest which he/she knows is material. For this purpose, the interests of a person who is connected with a Member of the Board (including any of his/her associates) are treated as the interests of the Member of the Board himself/herself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Member of the Board may not be included in the quorum for such part of a meeting that relates to a resolution he or she is not allowed to vote on but he or she shall be included in the quorum for all other parts of that meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Member of the Board's other interests or appointments.

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director and any Director holding a senior Government position, is not included in the quorum for that part of the meeting which relates to the contract, transaction, arrangement or other proposal being considered by the Board and in relation to which the conflict exists and is not allowed to vote on the related resolution. Where appropriate, Government-nominated Directors and any Directors holding a senior Government position will be excused from attendance for discussion of a particular item.

There are a number of contractual arrangements that have been entered into between the Company and Government (and/or its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 176 to 198) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been treated.

Matters to be decided at Board meetings are decided by a majority of votes from Members of the Board allowed to vote, although the usual practice is that decisions reflect the consensus of the Board.

BOARD MEETINGS

The Board held ten meetings in 2022 (seven Regular Meetings and three Special Meetings), well exceeding the requirement of the CG Code which requires every listed issuer to hold board meetings at least four times a year.

In addition and as required by the Listing Rules, the Chairman has met with INEDs only without the presence of other Members of the Board during the year, at which matters surrounding the operations of the Board and Board Committees, further enhancement of the information presented to the Board, the Board's oversight in respect of major projects, progress of the transformation programme, the Corporate Strategy (especially relating to the Company's Mainland China and International Businesses), prioritisation of major projects and resource allocations, safety performance and progress made on Environmental, Social and Governance matters were discussed.

Regular Meetings

At each Regular Meeting, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's different businesses and financial and operational performance.

In addition, other key matters discussed at the Regular Board meetings held in 2022 included:

- Corporate Strategy:
  - Receipt of progress report and updates on the corporate transformation programme;
- Environmental, Social and Governance:
  - Annual review of the structure, size and composition of the Board and its corporate governance functions for 2021; annual assessment of (i) the independence of the INEDs; and (ii) the effectiveness of the Company's risk management and internal control systems for 2021;
  - Recommendation of the appointment of new Members of the Board, re-election of retiring Members of the Board, and amendments to the Articles of Association for approval by shareholders at the 2022 AGM;
  - Approval of (i) changes to the structure of the Board Committees and the establishment of a new Advisory Panel, including the adoption of relevant terms of reference, and approval of memberships and associated fees; (ii) amendments to the Protocol; (iii) appointment of an advisor to the Capital Works Committee; and (iv) annual update to the Directors' Manual;
  - Approval of amendments to the Nomination Policy and the BD Policy of the Company;
  - Approval of 2021 Sustainability Report;
  - Receipt of Carbon Reduction Study and approval of the setting of science-based carbon emission reduction targets; and
  - Receipt and consideration of reports from Management on key matters such as corporate safety governance and enterprise risk management;

- Hong Kong Transport Services:
  - Review of report on the 2021 Hong Kong Transport Service Performance;
  - Approval of fares for the East Rail Line Cross Harbour Extension;
  - Receipt of status updates on a major resignalling project, and approval of additional funding requests for the project;
  - Receipt of an update on the project delivery strategy and procurement approach relating to the signalling works for certain railway lines and projects;
  - Approval of a major licence renewal; and
  - Approval of the Company's fare adjustment principles in 2022 under the Fare Adjustment Mechanism ("FAM") and receipt of a progress update on the 2023 FAM review;
- Capital Works:
  - Approval of the budget for the advance works of certain new railway projects;
  - Receipt of updates on the project agreement for a new railway project; and
  - Approval of the technical and financial submission proposals for a proposed railway project;
- Property:
  - Approval of contract award for the fit out works of a property development in Hong Kong;
  - Approval of tender arrangements for certain property developments in Hong Kong;
  - Receipt of progress updates on a new property development; and
  - Approval of a major lease renewal;
- Mainland China and International Businesses:
  - Receipt of annual business updates, business development, strategy updates and/or long term plans of the Mainland China, Macao and International businesses; and
  - Receipt of an update on the opening of the Central Section of the Elizabeth Line in the United Kingdom;
- New Growth Engine:
  - Approval of an investment cap for the New Growth Engine business;
- Financial:
  - Review and approval of the 2021 Annual Report and the 2022 Interim Report and financial statements;
  - Receipt of updates on the financial impact of COVID-19;
  - Approval of the renewal of the US$7 Billion Debt Issuance Programme; and
  - Approval of the 2023 Budget and 10-Year Forecast;
- Human Resources:
  - Receipt of report on Employee Engagement Survey and actions planned; and
  - Approval of 2022 Annual Pay Review.

Special Meetings

During 2022, three Special Meetings were held to consider and, where appropriate, approve the transactions and associated agreements relating to the full operation of the Shatin to Central Link, the way forward and additional funding for a resignalling project, the project agreement for a new railway project and the Oyster Bay Property Development.

The minutes of Board meetings are prepared by the Company Secretary or her delegate with details of the matters considered by the Board and decisions reached, including any concerns raised by Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comments within a reasonable time after the meeting. The approval procedure is that the Board formally adopts the draft minutes at the subsequent meeting. If Members of the Board have any comments on the draft minutes, they will discuss it at that meeting and any agreed changes will be reflected in the formal minutes of the relevant meeting. Minutes of Board meetings are kept by the Company Secretary and are open for inspection by all Members of the Board at the Company's registered office.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 120 to 122 of this Report.

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2022

	Attendance										
	Board Meetings		Board Committees/Advisory Panel Meetings							2022 AGM	Training[Ω]
	RM	SM	A&RC	NC	RC	CWC	E&SRC	F&IC	TAP		
Total Number of Meetings	7	3	4	2	2	4	2	7	3	1	
Members of the Board											
Non-executive Directors ("NED")											
Dr Rex Auyeung Pak-kuen (Chairman)[1]	7/7	3/3		2/2	2/2		2/2[c]			1/1	√
Christopher Hui Ching-yu[2] (Secretary for Financial Services and the Treasury)	6/7	1/3		0/1	1/2			4/7		0/1	√
Secretary for Transport and Logistics (Lam Sai-hung)[3]	4/4	0/2		1/1						N/A*	√
Permanent Secretary for Development (Works) (Ricky Lau Chun-kit)[4]	3/7	1/3		0/1		2/4				0/1	√
Commissioner for Transport (Rosanna Law Shuk-pui)[5]	6/7	1/3	2/4						2/3	0/1	√
Independent Non-executive Directors ("INED")											
Andrew Clifford Winawer Brandler[6]	6/7	1/3	4/4					7/7[c]		1/1	√
Dr Bunny Chan Chung-bun[7]	7/7	3/3					2/2	7/7		1/1	√
Walter Chan Kar-lok[8]	7/7	3/3		2/2		3/3				1/1	√
Dr Pamela Chan Wong Shui	7/7	3/3		2/2[c]			2/2			1/1	√
Dr Dorothy Chan Yuen Tak-fai	7/7	3/3			2/2[c]	4/4				1/1	√
Cheng Yan-kee	7/7	3/3			2/2	4/4[c]				1/1	√
Hui Siu-wai[9]	7/7	3/3	4/4			4/4				1/1	√
Sunny Lee Wai-kwong[10]	4/4	2/2		1/1					2/2	N/A*	√
Dr Rose Lee Wai-mun[11]	5/7	3/3	1/1		1/1			7/7		1/1	√
Jimmy Ng Wing-ka[12]	6/7	3/3		1/1		1/1	2/2			1/1	√
Carlson Tong[13]	4/4	1/2	3/3[c]					5/5		N/A*	√
Adrian Wong Koon-man[14]	7/7	3/3	4/4	1/1	1/1			2/2		1/1	√
Johannes Zhou Yuan[15]	7/7	3/3	4/4						3/3[c]	1/1	√
Executive Director ("ED")											
Dr Jacob Kam Chak-pui (CEO)	7/7	3/3					2/2			1/1	√
Members of the Executive Directorate & the Executive Committee											
Dr Jacob Kam Chak-pui (CEO)	7/7	3/3					2/2			1/1	√
Adi Lau Tin-shing										0/1	√
Margaret Cheng Wai-ching							2/2			1/1	√
Linda Choy Siu-min										1/1	√
Carl Michael Devlin[16]										N/A*	√
Herbert Hui Leung-wah										1/1	√
Dr Tony Lee Kar-yun										1/1	√
Gillian Elizabeth Meller							2/2			1/1	√
David Tang Chi-fai										1/1	√
Jeny Yeung Mei-chun										0/1	√
Members departed during 2022											
NED											
Secretary for Transport and Housing (Frank Chan Fan)[17]	2/3	0/1		0/1	0/2					0/1	x
INED											
Dr Anthony Chow Wing-kin[18]	3/3	1/1			1/1	1/1				0/1	√
Dr Eddy Fong Ching[19]	3/3	1/1	1/1	1/1				1/2		1/1	√
Benjamin Tang Kwok-bun[20]	3/3	1/1			1/1				1/1	1/1	√
Member of the Executive Directorate & the Executive Committee											
Roger Francis Bayliss[21]										1/1	√

Legend:

Board Meetings
RM – Regular Meeting(s)
SM – Special Meeting(s)

Board Committees/Advisory Panel Meetings
A&RC – Audit & Risk Committee
NC – Nominations Committee
RC – Remuneration Committee
CWC – Capital Works Committee
E&SRC – Environmental & Social Responsibility Committee
F&IC – Finance & Investment Committee
TAP – Technology Advisory Panel

2022 AGM – Annual General Meeting of the Company held on 25 May 2022

N/A – Not applicable

***** – appointed after the conclusion of 2022 AGM

C – Chairman of the Board committee/advisory panel

Ω – This includes (i) continuous professional development through attending expert briefings/seminars/conferences relevant to the Company's business or directors' duties arranged by the Company or external organisations, and reading regulatory/corporate governance or industry related updates; and (ii) induction and familiarisation programmes attended by newly appointed Directors

Notes:

1. *Dr Rex Auyeung Pak-kuen has been re-appointed by the Financial Secretary Incorporated as the Chairman of the Board for a period of two and a half years starting from 1 January 2022 to 30 June 2024 (both dates inclusive).*
2. *Mr Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury) was appointed by the Board as a member of the F&IC of the Company and ceased to be a member of the NC of the Company, both with effect from 1 February 2022.*

   The alternate directors of Mr Hui, acting on his behalf, attended one RM, one NC meeting, one RC meeting and two F&IC meetings. Mr Hui was not present at those Board meetings or a portion thereof and a F&IC meeting at which the Northern Link Spur Line, Tung Chung Line Extension, Oyster Bay Property Development project and/or Shatin to Central Link project were discussed for avoidance of any actual or perceived conflict of interest.
3. *The office of the Secretary for Transport and Logistics ("S for T&L") became a NED and was appointed by the Board as a member of each of the NC and the RC of the Company, all with effect from 1 July 2022. Mr Lam Sai-hung, who holds the post of the S for T&L, by virtue of holding such post, became a NED and a member of each of the NC and the RC of the Company, all with effect from the same date.*

   The alternate director of S for T&L (Mr Lam Sai-hung), acting on his behalf, attended one SM. Mr Lam was not present at those Board meetings or a portion thereof at which the Tung Chung Line Extension and/or Oyster Bay Property Development project was discussed for avoidance of any actual or perceived conflict of interest.
4. *The office of the Permanent Secretary for Development (Works) ("PS for D(W)") (Mr Ricky Lau Chun-kit) was appointed by the Board as a member of the NC of the Company and ceased to be a member of the then RiskC, both with effect from 1 February 2022.*

   The alternate director of PS for D(W) (Mr Ricky Lau Chun-kit), acting on his behalf, attended four RM, one NC meeting and two CWC meetings. Mr Lau or his alternate director were not present at those Board meetings or a portion thereof at which the Northern Link Spur Line, Tung Chung Line Extension, Oyster Bay Property Development project and/or Shatin to Central Link project were discussed for avoidance of any actual or perceived conflict of interest.
5. *The office of the Commissioner for Transport ("C for T") (Miss Rosanna Law Shuk-pui) was appointed by the Board as a member of the TAP of the Company and ceased to be a member of the then RiskC, both with effect from 1 February 2022.*

   The alternate director of C for T (Miss Rosanna Law Shuk-pui), acting on her behalf, attended one RM, two A&RC meetings and one TAP meeting. Miss Law was not present at those Board meetings or a portion thereof at which the Northern Link Spur Line, Tung Chung Line Extension, Oyster Bay Property Development project and/or Shatin to Central Link project were discussed for avoidance of any actual or perceived conflict of interest.
6. *Mr Andrew Brandler was appointed by the Board as a member and the chairman of the F&IC of the Company and ceased to be a member and the chairman of the then RiskC, all with effect from 1 February 2022.*
7. *Dr Bunny Chan Chung-bun was appointed by the Board as a member of the F&IC of the Company with effect from 1 February 2022.*
8. *Mr Walter Chan Kar-lok was appointed by the Board as a member of the CWC of the Company and ceased to be a member of the then CRC, both with effect from 1 February 2022.*
9. *Mr Hui Siu-wai was appointed by the Board as a member of the A&RC of the Company and ceased to be a member of the then RiskC, both with effect from 1 February 2022.*
10. *Mr Sunny Lee Wai-kwong was elected as a Member of the Board and became an INED with effect from the conclusion of the 2022 AGM, and was appointed by the Board as a member of each of the NC and the TAP of the Company, both with effect from the same date.*
11. *Dr Rose Lee Wai-mun was appointed by the Board as a member of the F&IC of the Company and ceased to be a member of the then RiskC, both with effect from 1 February 2022. She was then appointed by the Board as a member of the RC of the Company and ceased to be a member of the A&RC of the Company, both with effect from 25 May 2022.*
12. *Mr Jimmy Ng Wing-ka was appointed by the Board as a member of the NC of the Company and ceased to be a member of the CWC of the Company, both with effect from 1 February 2022.*
13. *Mr Carlson Tong was elected as a Member of the Board and became an INED with effect from the conclusion of the 2022 AGM, and was appointed by the Board as a member and the chairman of the A&RC of the Company and a member of the F&IC of the Company, all with effect from the same date.*
14. *Mr Adrian Wong Koon-man was appointed by the Board as a member of the F&IC of the Company and ceased to be a member of the NC of the Company, both with effect from 1 February 2022. He was then appointed by the Board as a member of the RC of the Company and ceased to be a member of the F&IC of the Company, both with effect from 25 May 2022.*
15. *Mr Johannes Zhou Yuan was appointed by the Board as a member and the chairman of the TAP of the Company and ceased to be a member of the then RiskC, all with effect from 1 February 2022.*
16. *Mr Carl Michael Devlin was appointed as the Capital Works Director and a Member of the Executive Directorate of the Company, both with effect from 1 August 2022.*

17. The office of the then Secretary for Transport and Housing ("the then S for T&H") (held by Mr Frank Chan Fan until 30 June 2022) ceased to be a NED and a member of each of the NC and the RC of the Company, all with effect from 1 July 2022.

The alternate directors of the then S for T&H (Mr Frank Chan Fan), acting on his behalf, attended one RM, one NC and two RC meetings. Mr Chan and his alternate director were not present at those Board meetings or a portion thereof at which the Northern Link Spur Line, Tung Chung Line Extension and/or Shatin to Central Link project were discussed for avoidance of any actual or perceived conflict of interest.

18. Dr Anthony Chow Wing-kin was appointed by the Board as a member of the NC of the Company and ceased to be a member of the CWC of the Company, both with effect from 1 February 2022. He retired as an INED, and a member of each of the NC and the RC of the Company, all with effect from the conclusion of the 2022 AGM.

19. Dr Eddy Fong Ching was appointed by the Board as a member of the F&IC of the Company and ceased to be a member of the NC of the Company, both with effect from 1 February 2022. He retired as an INED, a member and the chairman of the A&RC of the Company, and a member of the F&IC of the Company, all with effect from the conclusion of the 2022 AGM.

20. Mr Benjamin Tang Kwok-bun was appointed by the Board as a member of the TAP of the Company and ceased to be a member of the then RiskC, both with effect from 1 February 2022. He retired as an INED, and a member of each of the RC and the TAP of the Company, all with effect from the conclusion of the 2022 AGM.

21. Mr Roger Francis Bayliss retired from the Company upon the completion of his service agreement with the Company immediately after 31 July 2022, and ceased to be the Capital Works Director and a Member of the Executive Directorate of the Company at the same time.

INDUCTION PROGRAMME AND OTHER TRAINING

Induction Programme

On appointment, each new Member of the Board (including Government-nominated Directors), Alternate Director and Member of the Executive Directorate is given a comprehensive, formal and tailored induction programme which covers:

- the roles of a director from the strategic, planning and management perspectives, as well as the essence of corporate governance and the trends in these areas; and
- the general and specific duties of a director under general law (common law and legislation) and the Listing Rules.

In addition to the above, a familiarisation programme to understand the key areas of the Company's business and operations is also provided.

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also provided with a Directors' Manual on their appointment which sets out, amongst other things, directors' roles and responsibilities, their key obligations from both a statutory and a regulatory perspective, the terms of reference of the Board on its Corporate Governance Functions and the terms of reference of the Board Committees and Advisory Panel. The Directors' Manual is updated regularly to keep the contents up to date so that the Directors are kept abreast of changes and latest developments in the laws and regulations that are relevant to Directors and the Company. The latest updates to the Directors' Manual, approved by the Board in January 2023, covered (i) certain reminders to Directors in the areas of corporate governance and directors' duties and responsibilities covering directors' training, good record-keeping and corporate culture; (ii) the Terms of Reference of the Executive Committee which were formalised in 2022; and (iii) miscellaneous housekeeping updates.

Training and Continuous Professional Development

Members of the Board and the Executive Directorate

To assist Members of the Board and the Executive Directorate in continuing their professional development, the Company Secretary recommends them to attend relevant seminars and courses at the cost of the Company.

Board Visit

In April 2022, certain Members of the Board and the Executive Directorate visited Exhibition Centre and Admiralty stations to gain a first hand understanding of the railway operations of the East Rail Line Cross-Harbour Extension.

Training

Materials on the subject of corporate governance and e-learning provided by the Stock Exchange and other professional firms and institutes are also provided/notified to Members of the Board, Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of the latest developments on this front.

Each Member of the Board and the Executive Directorate has provided to the Company a record of the training he/she has received during the year, which is set out on pages 120 to 122 of this Report.

Senior Executives

A comprehensive and tailored training programme has been developed for the Senior Executives of the Company. This programme consists of a series of workshops, seminars and e-learning which are organised on an on-going basis.

To support the enhancement of the business acumen, leadership and management skills of the Senior Executives, professors from renowned business schools and companies are engaged to share cutting-edge research and insights on thought leadership, leading change, digital transformation and innovation as well as contemporary management and business topics. Partnering with overseas business schools, various self-paced online executive programmes were also organised in 2022 to enable senior leaders to expand their business skills and connect with world-class professors and experienced executives from around the globe.

In early February 2023, the Company has arranged an external law firm to provide a briefing on connected transactions and continuing connected transactions to managerial or above staff to promote understanding of the relevant requirements under the Listing Rules.

FINANCIAL REPORTING

Members of the Board are responsible for preparing the consolidated financial statements of the Group. The consolidated financial statements are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of the Group's consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated financial statements for the year ended 31 December 2022, Members of the Board have selected appropriate accounting policies and have applied them consistently with previous financial periods, apart from those new and amended accounting policies effective from 1 January 2022 as disclosed in the notes to the consolidated financial statements for the year ended 31 December 2022. Judgments and estimates that have been made are prudent and reasonable. The reporting responsibilities of the external auditor of the Company (the "External Auditor") are set out on page 131 of this Report.

In support of the above, the consolidated financial statements presented to the Board have been reviewed by Members of the Executive Directorate. For both the annual and interim reports and consolidated financial statements, the Finance Function is responsible for clearing them with the External Auditor and the Audit & Risk Committee. In addition, all new and amended accounting standards and requirements, as well as any changes in accounting policies adopted by the Group, have been discussed and reviewed by the Audit & Risk Committee before adoption by the Group.

Members of the Board endeavour to ensure a balanced, clear and coherent assessment of the Group's consolidated financial position and performance in annual reports, interim reports, inside information announcements, and other financial disclosures required under the Listing Rules and other statutory requirements.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for the risk management and the internal control systems of the Company and its subsidiaries and reviewing their effectiveness on an annual basis. With the assistance of the Audit & Risk Committee as mentioned in the Audit & Risk Committee Report on pages 135 to 137 of this Annual Report, the Board oversees the Company's risk management system (the "ERM" system) and internal control system on an on-going basis, sets appropriate policies and reviews the effectiveness of the systems at least annually.

Over the course of 2022, the Company has strengthened its Second Line of Defence through the independent Assurance Management Department, complemented by the technical and engineering Centres of Excellence, and Strategic Assurance Review Board, which serves to coordinate and focus assurance activities on material risks as well as to highlight any insights or concerns to relevant Executives.

The ERM system and the internal control system, with processes put in place by the Board, management and other personnel, are designed to manage (as opposed to eliminate) risk and provide reasonable assurance, not absolute assurance, against material misstatement or loss, regarding the achievement of objectives in the following areas:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness of risk management

Systems Overview

The Executive Committee is responsible for:

- Implementing the Board's policies on risk management and internal controls;
- Identification and evaluation of the risks faced by the Company for consideration by the Board;
- Designing, operating and monitoring a suitable internal control system and risk management system; and
- Providing assurance to the Board that it has done so, together with a confirmation that these systems are effective and adequate.

In addition, all employees have responsibility for risk management and internal controls within their areas of accountability.

Business/Functional Management Committees

A number of committees have been established to assist the Executive Committee in the management and control of the Company's various core businesses and functions. Each committee has its own terms of reference which, together with the structure and composition of the committees, are reviewed from time to time to ensure they meet the Company's business and operational needs.

Internal Audit

The Head of Internal Audit reports directly to the Board via the Audit & Risk Committee and reports administratively to the CEO. The Internal Audit Department ("IAD") has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes.

On a regular basis, it conducts audits on financial, operational and compliance controls and the risk management functions of the Company and its subsidiaries. Relevant members of the management team are responsible for ensuring that control deficiencies highlighted in internal audit reports are rectified within a reasonable time.

The IAD produces an annual internal audit plan for the Audit & Risk Committee's approval. The audits are selected based on risk assessment of the Company's audit universe to ensure that business activities with higher risks are covered. On a quarterly basis, the Head of Internal Audit reports to the Audit & Risk Committee on major observations identified in audit reviews and the implementation progress of audit recommendations, together with her opinion on the adequacy and effectiveness of the Company's internal control system.

ERM system

The ERM system is an essential and integral part of the Company's corporate governance framework and helps to sustain business success and create value for stakeholders. It involves a corporate-wide systematic risk identification and management process which aims to assist the Executive Committee and individual business unit managers to manage the key risks facing the Company and supports the Board in discharging its corporate governance functions.

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 138 to 142) of this Annual Report.

Control Activities and Processes

To ensure the efficient and effective operation of business units and functions and the safety of the operating railway and construction works in railway projects, CGI(s), Business Units'/Functions'/Departments' procedures and manuals, committees, working groups and quality assurance units are established to monitor and enforce internal controls and evaluate their effectiveness.

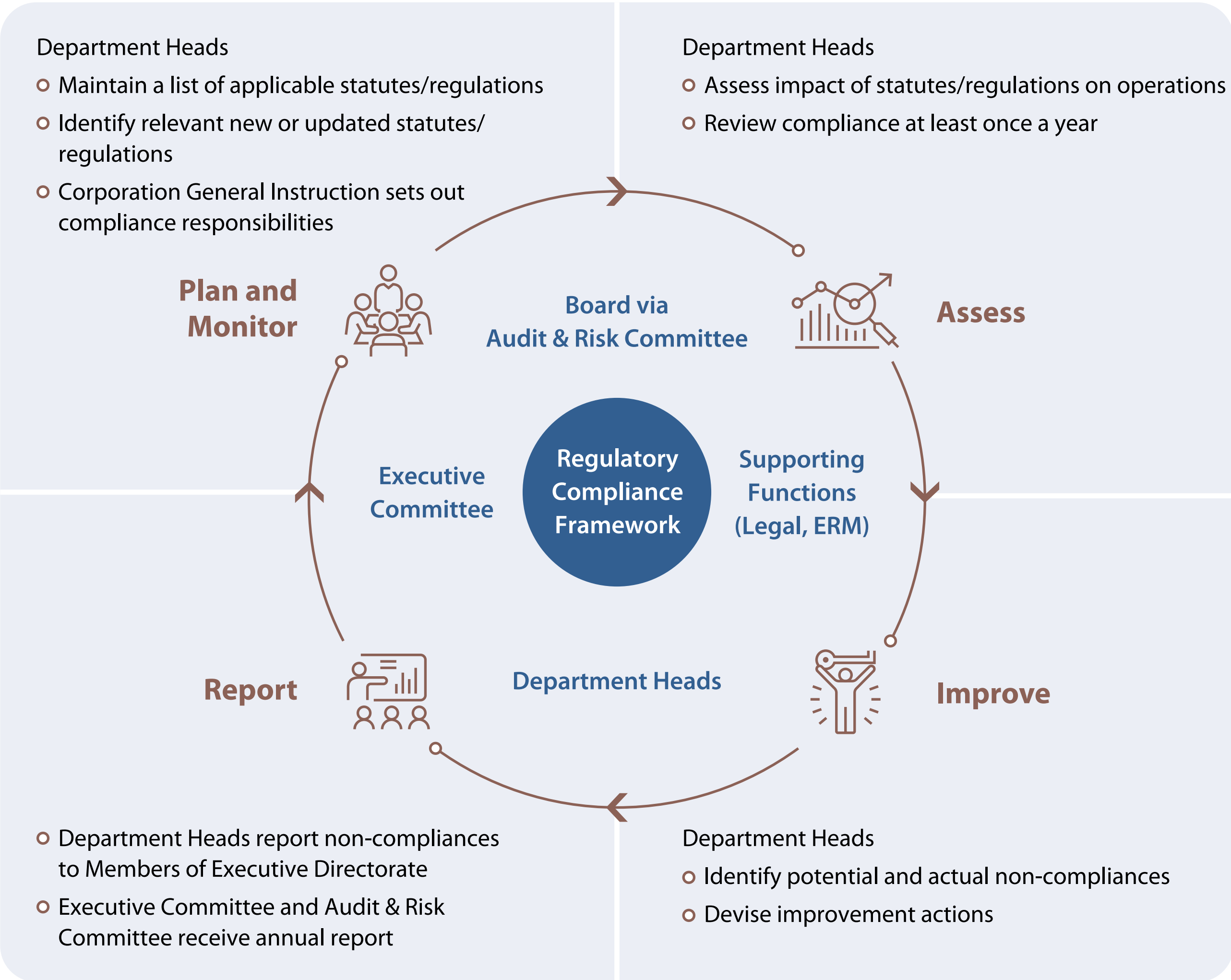
CGIs and various Departments' procedures and manuals are established for preventing or detecting unauthorised expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records, and the timely preparation of reliable financial information.

Directors and Department Heads of Business Units/ Functions, including General Managers/Project Managers for overseas subsidiaries/projects, are required to conduct annual assessments and certifications on the effectiveness of risk management and internal control systems within their areas of responsibility.

Compliance with Statutes and Regulations

All Department Heads, including General Managers/ Project Managers for overseas subsidiaries/projects, are responsible for ensuring compliance with the statutes and regulations applicable to their own functional units in accordance with the Regulatory Compliance Framework, with necessary legal support.

Issues relating to compliance with statutes and regulations, including potential and actual non-compliances, and the status of rectifications and actions taken to prevent recurrence are reported annually to the Executive Committee and the Audit & Risk Committee.



Whistle-blowing Policy

A whistle-blowing policy, which is available on the Company's website (www.mtr.com.hk), has been put in place to deal with concerns related to fraudulent or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal or reputational impacts on the Company. The whistle-blowing policy is regularly reviewed by the IAD. The whistle-blowing channel is available to all staff, parties who deal with the Company as well as the general public. Every quarter, a summary of all whistle-blowing cases handled by the Whistle-blowing Panel, staff complaints handled by the Human Resources Management Department and management initiated investigations are reported to the Executive Committee and the Audit & Risk Committee.

Inside Information Policy

The Company has developed a system with established policies, processes and procedures across all relevant Functions, Business Units and Departments for the handling and dissemination of Inside Information, which encompasses the following:

- A CGI setting out:

  (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;

(ii) the responsibilities of Model Code Managers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and

(iii) the process for disclosure of Inside Information; and

- Training for Members of the Board and the Executive Directorate, Executive Managers, Department Heads and Model Code Managers is provided from time to time. In particular, Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers are regularly required to complete an online training programme on Inside Information. To refresh their awareness of the Inside Information policy, a new mandatory online training programme was launched in October 2022.

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant requirement in the CG Code by completing an effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's key associates operating in Mainland China and overseas. For the year ended 31 December 2022, the Audit & Risk Committee, with delegated authority from the Board, has evaluated the effectiveness of the ERM system of the Company and considers that it is overall effective and adequate.

Details about the "Process of System Effectiveness Review" are set out in the Risk Management section (page 141) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2022, the annual review of the effectiveness of the internal control system of the Company and its subsidiaries and key associates was performed by the Audit & Risk Committee based on the following:

- Review of significant issues arising from internal audit reports and the external audit report
- Private sessions with internal and external auditors
- Review of annual assessment and certification of internal controls from Members of the Executive Directorate, management of overseas subsidiaries and key associates and Department Heads in their areas of responsibility

→ The Audit & Risk Committee concluded that the internal control system was overall effective

Evaluation of the Adequacy of Resources of the Company's Accounting, Financial Reporting and Internal Audit Functions and for ESG Performance and Reporting

For the year ended 31 December 2022, the annual assessments performed by the Finance Function, IAD and the Environmental & Social Responsibility Team concluded that there were adequate resources, staff qualifications and experience, training programmes and budgets for the Company's accounting, financial reporting, internal audit and ESG performance and reporting functions respectively.

The Company is committed to recruit, train and develop a team of qualified and competent accountants for overseeing the Group's financial reporting and other accounting-related matters. A process to capture and update relevant laws, rules and regulations applicable to the financial reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance Director, who will conduct a formal annual review and report the review results to the Audit & Risk Committee.

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance along with consulting services designed to add value and improve the Company's operations. A process to capture updated standards and best practices relating to internal audit is in place. Proper recruitment processes and staff development programmes are also in place to address the competency, qualifications and experience required. The Head of Internal Audit conducts a formal annual review on the adequacy of staff resources, qualifications and experience of the internal audit function and reports the results to the Audit & Risk Committee.

In terms of ESG performance and reporting, the Company is also committed to recruiting, training and developing a team of qualified and competent specialists for overseeing the implementation of the Company's ESG initiatives, enhancing and monitoring ESG performance and preparing ESG reports and other disclosures. A process to capture and update laws, regulations, standards and best practices applicable to the Company's ESG performance and reporting is in place. Designated officers will ensure relevant ordinances, regulations and standards under their responsibility are complied with. Resources and provisions required to deliver the ESG performance and reporting function are reviewed during the annual budgeting exercise by respective business units and corporate functions. Proper recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. The Legal and Governance Director will conduct a formal annual review on the adequacy of staff resources, qualifications and experience of staff involved in delivering the Company's ESG performance and reporting function and report the review results to the Audit & Risk Committee as part of the report on risk management and internal control systems effectiveness.

Based on the above, the Audit & Risk Committee considers that the resources, qualifications and experience of staff, training programmes and budgets for the Company's accounting, financial reporting, and internal audit functions, as well as for the ESG performance and reporting functions are adequate.

Board's Annual Review

The Board has, through the Audit & Risk Committee, overseen the Company's risk management and internal control systems on an on-going basis. The Board has conducted its annual review of the risk management and internal control systems of the Company and its subsidiaries and key associates for the year ended 31 December 2022, and considers that such systems are overall effective and adequate, with supporting compliance mechanisms to provide assurance that the Company and its officers observe their disclosure obligations in respect of Inside Information.

The Board has also conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budgets for the Company's accounting, financial reporting and internal audit functions, as well as the ESG performance and reporting functions for the year ended 31 December 2022, and considers the above resource components to be adequate.

CRISIS MANAGEMENT

To uphold the reputation of being one of the world's leading railway operating companies and in order to ensure that the Company will respond to and recover from crises in an organised and highly effective manner, the Company has established a mechanism to activate pre-defined levels of crisis response in the event of a crisis which enable timely communication with principal stakeholders such as Government departments and shareholders. The Corporate Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers and its operation is governed by a Corporate Crisis Management Plan which, among other things, sets out the duties of respective members. The Corporate Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Corporate Crisis Management Team is aided by an information system, which keeps track of the latest situation, issues and strategic actions, and disseminates crisis related information. Regular Corporate Crisis Management Team exercises are held to validate the corporate crisis management mechanism and to provide practice for members.

To further enhance the Corporate Crisis Management Framework, a review was conducted in 2021 on the crisis response structure, to which the Business Unit Crisis Response level was added to provide additional granularity and agility in crisis response. The enhanced Framework was implemented along with the new issue of the Corporate Crisis Management Plan (Version 2.0) in March 2022.

In 2022, in response to the prolonged COVID-19 pandemic, the Corporate Crisis Management Team delegated the tactical level monitoring of the situation and the coordination of the Company's responses and actions to the Infectious Diseases Management Team, with the goal of safeguarding the health and safety of our customers, staff and contractors and reducing the impact on the Company's operations.

GOVERNANCE OF SUBSIDIARIES AND ASSOCIATES

The Company has a number of subsidiaries and associates which operate independent businesses in Hong Kong, Macao, Mainland China and overseas. Notwithstanding the fact that these subsidiaries and associates are separate legal entities, the Company has implemented a management governance framework (the "Management Governance Framework") to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and associates. In addition, a number of other enhancements have been made to the Company's policies and practices on corporate governance during the year ended 31 December 2022, including the rollout of new CGIs on (i) legal entity management; and (ii) connected and continuing connected transactions.

The Company's Management Governance Framework promotes collaboration between the corresponding Business Units/Functions in the Company on the one hand and the subsidiaries and associates on the other hand and the implementation process of the Management Governance Framework in the Company's subsidiaries and associates starts from the inception of any new business operations/investments.

In 2022, the Company conducted a review and updated the CGI governing the Management Governance Framework to enhance the implementation process, as well as formalising exceptions for certain subsidiaries and associates from compliance with relevant CGI, subject to satisfaction of specified criteria and conditions.

Pursuant to the Management Governance Framework, the Company exercises its control and oversight through the formulation of a governance structure that is tailored for individual subsidiaries and associates through (i) the imposition of certain internal controls in key areas; and (ii) the adoption of management practices and policies that are appropriate to the business nature and local situation. As a result, adequate internal controls will be adopted by subsidiaries and associates and the Company will be consulted and notified on important matters, complemented by regular reporting and assurance. Compliance with this governance structure is reported by subsidiaries and associates with significant operations on an annual basis.

To facilitate colleagues who act as a director and/or alternate director of the Company's subsidiaries and associates in gaining a better understanding of their directors' duties and responsibilities, mandatory training was provided to them in January 2023, which covered the fundamental legal principles governing the duties and responsibilities of a director and key protocols and policies that are relevant to discharging their duties as the Company's representatives on the boards of directors of those entities.

BUSINESS ETHICS

Practising integrity and responsible business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company in terms of ethical practices and obliges staff to operate transparently and under the highest principles of fairness, impartiality and integrity in all of the places where the Company does business.

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. The latest version was released in February 2022 in the form of a digital flipbook to facilitate staff understanding and access. In addition, a new staff awareness programme was launched in early June 2022. The main theme of the first session was the Personal Data (Privacy) Ordinance. Animation videos and interactive games with real life examples as well as a webinar were provided to help staff members better understand the principles of the Ordinance and if certain acts are unlawful or unacceptable. Other education programmes, such as mandatory online training programmes, have also been introduced to raise staff awareness.

To ensure our staff members live up to the highest ethical standards, a policy related to the prevention of bribery and corrupt practices has been put in place and is reviewed periodically. Staff members are also encouraged to report existing or perceived violations of the Code of Conduct as well as malpractices. Proper procedures related to the whistle-blowing policy of the Company are also established, which enable staff members to raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about any wrongdoings.

To assist new recruits in embracing the Company's values and ethical commitments, they are briefed on the Code of Conduct during the staff induction programme. New recruits are also required to complete mandatory online training programmes within three months of joining the Company. The Code of Conduct is available on the Company's website (www.mtr.com.hk).

In addition, the Code of Conduct serves as a guideline for establishing a comparable ethical culture among our subsidiaries and associates in Hong Kong, Macao, Mainland China and overseas.

EXTERNAL AUDITOR

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit & Risk Committee, under its terms of reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit & Risk Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services, for complying with relevant regulatory requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 10B to the consolidated financial statements on page 231 of this Annual Report.

For maintaining independence and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years in accordance with the Hong Kong Institute of Certified Public Accountants/International Federation of Accountants Code of Ethics.

KPMG confirms its independence with regard to The Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants regarding auditor independence.

COMMUNICATION WITH SHAREHOLDERS

The Company aims to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner. The Board is responsible for maintaining an on-going dialogue with shareholders and, in particular, for communicating with them and encouraging their participation. The Company adopted a Shareholders' Communication Policy in 2012, which was last updated in January 2022 and is available on the website of the Company (www.mtr.com.hk).

A high-level summary of the Shareholders' Communication Policy is set out below:

- as a general policy: the Company (i) will assign dedicated management personnel to be in charge of ensuring effective and timely dissemination of information to shareholders; (ii) will provide shareholders with ready access to information about the Company; and (iii) will facilitate shareholders' participation in annual general meetings; and
- as specific policies: (i) corporate communications (such as annual reports, interim reports, circulars and announcements) will take full account of the Company's obligations under the Listing Rules and other relevant laws and regulations; (ii) annual general meetings and other general meetings are opportunities for shareholders to exercise their right to speak and discuss the business activities of the Company; (iii) announcements, notices, circulars and other documents as required by the Listing Rules, and news releases and data/information about latest developments of the Company are available on the Company's website; and (iv) shareholders can communicate their views on various matters affecting the Company, and the Company has set out different engagement channels to solicit and understand the views of its stakeholders.

During the year, the key communication channels and engagements with shareholders were as follows:

2022 AGM

- Held in hybrid format, which provided shareholders with the option of attending the 2022 AGM physically or joining online
- Submission of questions in advance

Investor Meetings

- About 100 meetings with institutional investors and analysts globally

Corporate Communications

- Over 70 corporate communications documents (including annual report, interim report and sustainability report as well as various notices and announcements) on the websites of both the Company and the Stock Exchange
- Press releases and webcast archives of results announcements on the Company's website

Dividend Information

- Dividend Policy is available on page 99 of this Annual Report under "Investor Relations" section
- Dividend payment history can be found on the Company's website
- Dividend calculator is made available on the Company's website during the scrip dividend election period to facilitate shareholders' calculation of the maximum number of scrip shares to which they are entitled

The Board has conducted its annual review of the Shareholders' Communication Policy and considers that it has been effectively implemented during the year ended 31 December 2022 and remains appropriate.

Annual General Meeting

The Company's Annual General Meeting is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for the Chairman of the Company, the chairman of each Board Committee, all Members of the Executive Directorate and the External Auditor of the Company to attend Annual General Meetings to answer shareholders' questions.

In light of the COVID-19 pandemic and the requirements of the relevant social distancing laws and regulations, the Company implemented a number of precautionary measures for the 2022 AGM, including:

- the 2022 AGM was held in a hybrid format, which provided shareholders with option of attending physically or joining online;
- only the Chairman of the Company, the chairman of each Board Committee, certain Members of the Executive Directorate and the External Auditor of the Company were invited to attend the 2022 AGM at the AGM venue and other Members of the Board and the Executive Directorate joined by electronic means;
- only 50 shareholders were accepted to physically attend the 2022 AGM through online pre-registration; and
- submission of questions in advance of the 2022 AGM was required.

At the 2022 AGM, the Company continued providing sign language interpretation in addition to simultaneous Cantonese, English and Putonghua interpretation, and, for the benefit of the Company's shareholders who were unable to physically attend the 2022 AGM, the Company provided shareholders with an option to join the meeting through an online platform with three choices of language (Cantonese, English and Putonghua). The webcast of the whole proceedings was also posted on the Company's website for viewing during the year.

The 2023 AGM has been scheduled on 24 May 2023. With the aim of helping shareholders save time and resources and reducing the Company's carbon footprint, the Company plans to continue holding the 2023 AGM in a hybrid format, which will provide shareholders with the option of attending physically or joining the AGM online, and the abovementioned sign language interpretation and simultaneous interpretation services will continue to be provided to further facilitate smooth and direct communication between the shareholders of the Company and the Members of the Board and the Executive Directorate of the Company. The Company is committed to making available meeting facilities to enable all eligible attendees to be able to participate in the 2023 AGM.

Resolutions passed at the 2022 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2022 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2022 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 13 resolutions were passed at the 2022 AGM (with resolution no. 3 comprising five separate resolutions), all of which were supported by over 97% of the votes cast, with a vast majority of the resolutions receiving over 99% support. The full text of the resolutions is set out in the 2022 AGM Circular (which comprised Notice of the 2022 AGM) dated 14 April 2022 and the results of the AGM are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Calling General Meetings

Directors of the Company may call a general meeting of the Company.

Shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request the Directors of the Company to call a general meeting of the Company.

The requesting shareholders must state in their request the general nature of the business to be dealt with, and may include the text of a resolution to be moved at the general meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy or electronic form, which must be authenticated by the requesting shareholders.

The Directors of the Company are required to call a general meeting within 21 days after the date on which the Company receives such request, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the request includes a resolution to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. If the resolution is to be proposed as a special resolution, the Directors of the Company are required to specify the intention to propose the resolution as a special resolution in the notice of the general meeting.

If, within 21 days after the date on which the Company receives the required request, the Directors of the Company do not proceed duly to call a general meeting, the shareholder(s) who requested the general meeting, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a general meeting, provided that the general meeting must be called for a date not more than three months after the date on which the Company receives the required request.

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association.

As regards proposing a person for election as a director, please refer to the "Appointment Procedure for Members of the Board of the Company" which is available on the website of the Company (www.mtr.com.hk).

Enquiries from Shareholders

Shareholders are, at all times, welcome to raise questions, communicate their views on various matters affecting the Company and request information (to the extent it is publicly available) from the Board and management by writing to the Company Secretary.

For other means of communication with the Company, please refer to the Investor Relations section (pages 98 to 99) of this Annual Report.

CONSTITUTIONAL DOCUMENT

To allow flexibility for the Company in reviewing the Directors' fees and to enable the Company to bring the Directors' fees more in line with the market so as to allow the Company to continue to attract Directors of a suitable calibre, the cap on Directors' fees set out in Article 100 of the Articles of Association has been increased from HK$10,000,000 to HK$11,000,000 with the approval of the Company's shareholders at the 2022 AGM. The updated Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 9 March 2023

AUDIT & RISK COMMITTEE REPORT

As mentioned in the Annual Report last year, the Board restructured the Company's Board Committees in early 2022, with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the new Corporate Strategy. As a result of that restructuring, the Audit Committee, with effect from 1 February 2022, took up certain duties of the former Risk Committee, including regularly reviewing the Company's enterprise risk management ("ERM") framework (one of the Company's key internal controls) and associated policies and procedures and assessing, on an annual basis, the effectiveness of the ERM function. The Audit Committee was therefore renamed as the Audit & Risk Committee (referred to as the "Committee" in this Report) on the same date.

During 2022, Dr Eddy Fong Ching retired as a Member of the Board of the Company after the conclusion of the Company's annual general meeting on 25 May and accordingly stepped down as the Chairman of the Committee after having served for seven years and gratitude should be given to Dr Fong for his contribution and leadership as the Committee Chairman. As at the date of this Report, the Committee consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company. None of the Committee members was or is a partner or former partner of KPMG, the Company's external auditor. Details of the Committee's membership and their attendance records during 2022 are set out on pages 120 to 122 of this Annual Report.

The Finance Director (the "FD"), the Head of Internal Audit (the "Head of IA") and the Legal and Governance Director (the "L&GD"), or their respective delegates, and representatives of the external auditor are required to attend all meetings of the Committee. The Committee meets at least once every quarter and the Chairman of the Committee or any two members of the Committee or the external auditor or the FD may request additional meetings if they consider necessary.

TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference of the Committee (the "ToR"), last updated in February 2022, is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

DUTIES OF THE COMMITTEE

Under the ToR, the duties of the Committee primarily comprise the following:

- Overseeing the relationship with the Company's external auditor, including making recommendations to the Board on the appointment of and any change to the Company's external auditor and communicating with the external auditor on financial matters of the Company;
- Reviewing the financial information of the Company, including monitoring the integrity of financial statements;
- Developing and implementing a policy on the engagement of the external auditor to supply non-audit services;
- Overseeing the Company's financial reporting system and internal control procedures, including overseeing the adequacy of the resources and competence of the Company's accounting and financial reporting functions;
- Overseeing the Company's Internal Audit function, including liaison with the Head of IA, approval of the annual internal audit plan of the Company and receiving periodic reports from the Head of IA;
- Reviewing the Company's ERM framework and the guidelines, policies and procedures for risk assessment and risk management;
- Receiving reports on the Company's enterprise risks and key emerging risks; and
- Reviewing the effectiveness of the ERM function (including staffing levels and qualifications), the Company's "Three Lines of Defence" ("3LoD") assurance framework and crisis management arrangements.

More details on the duties of the Committee are set out in the ToR and further information can be found in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 124 to 129 of this Annual Report.

For more details of the features of the ERM system and processes, the significant risks being managed and the process used to review the effectiveness of the ERM system, please refer to the "Risk Management" section on pages 138 to 142 of this Annual Report.

Reporting to the Board

The Chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom in a report to the Board after each Committee meeting.

The minutes of Committee meetings are prepared by the secretary of the meetings with details of the matters considered by Committee members and decisions reached, including any concerns raised by Committee members, dissenting views expressed and suggestions for enhancing the governance and internal control systems of the Company. The draft minutes are circulated to Committee members for comment after each meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that Committee members may have made. Minutes of Committee meetings are open for inspection by Committee members at the Company's registered office.

In advance of the first regular Committee meeting each year, the secretary of the meetings pre-agrees key agenda items for the year with the Chairman of the Committee who makes a final determination on the agenda for the Committee meetings.

WORK PERFORMED BY THE COMMITTEE IN 2022

In 2022, the Committee held four regular meetings. Representatives of the external auditor, the FD, the L&GD and the Head of IA attended all four regular meetings to report and answer questions about their work. In addition, relevant Members of the Executive Directorate were invited to join certain presentations to the Committee. During the year, the Committee also held private sessions with the external auditors and the Head of IA, without the presence of Management representatives.

The Committee devoted its attention to the review of the Company's annual and interim results announcements/ financial statements at the February and August 2022 meetings respectively, allowing more time to review and discuss the Company's internal controls, internal audit, regular reports on ERM and the Second Line of Defence ("2LoD") and other activities at the June and November 2022 regular meetings.

Over the course of 2022, the Company has continued to implement its strengthened 3LoD model through the independent Assurance Management Department, complemented by technical and engineering Centres of Excellence and a new Strategic Assurance Review Board which serves to coordinate and focus assurance activities, as well as to highlight any insights or concerns to relevant Executives. Although in the early implementation phase, the newly formed 2LoD has introduced and piloted the refreshed 3LoD model and framework within the Capital Works Business Unit and has expanded its roll out to Hong Kong Transport Services and other Business Units. While a substantial journey remains, the foundation for an effective 2LoD has been established.

Other major work performed by the Committee in 2022 included:

Financial

- Reviewed the draft 2021 Annual Report, Annual Results Announcement and Financial Statements and 2022 Interim Report, Interim Results Announcement and Financial Statements, accounting matters, and relevant disclosure notes in the said Financial Statements and made recommendations on the same for the Board's approval;
- Received updates on the valuations of the Group's Hong Kong property assets and Mainland China investment properties;
- Received updates on the latest budget status of the Company's railway construction projects under entrustment by the HKSAR Government;
- Received a preview of the 2022 interim and annual accounting and financial reporting issues; and
- Reviewed the accounting matters and disclosure notes in the financial statements in relation to a resignalling project;

Internal Audit and Internal Control

- Reviewed the Risk Management and Internal Control Systems effectiveness paper for 2021 for submission to the Board;
- Reviewed the report on the evaluation of the effectiveness of the Internal Audit Department for 2021;
- Reviewed the continuing connected transactions for 2021;
- Reviewed Internal Audit Department's Six-monthly Report and Quarterly Reports;
- Received an update on the status of an Internal Audit Report on a resignalling project; and
- Approved the 2023 Internal Audit Plan;

External Auditor

- Received KPMG's reports on the salient features of the 2021 Annual Financial Statements and 2022 Interim Financial Statements respectively;
- Considered KPMG's independence and other relevant factors when approving the appointment of KPMG in providing a non-audit service; and noted KPMG's confirmation of independence in its audit report in respect of the 2021 Annual Financial Statements and 2022 Interim Financial Statements respectively;
- Approved KPMG's fee proposal for the 2022 annual audit and the 2023 interim review, as well as other audit related and tax services; and
- Reviewed KPMG's audit plan for the year ending 31 December 2022;

Governance

- Reviewed the report on compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements in 2021, and outstanding litigation/potential litigation;
- Endorsed the Audit Committee Report, Risk Committee Report and Risk Management related disclosures for the 2021 Annual Report;
- Reviewed the governance of the Mainland China and Macau Businesses and International Business; and
- Reviewed summaries of key issues reported to the Audit/Risk/Governance Committee Minutes of various subsidiaries of the Company;

Risk Management and Assurance

- Received an introduction to the ERM Framework;
- Reviewed ERM's 2021 Annual Report, 2022 Half Yearly Report and a Quarterly Report;
- Received the roadmap of the 3LoD model and framework and regular updates on the 2LoD's progress, results and Key Performance Indicators (KPIs);
- Received an introduction to the Corporate Crisis Management Framework; and
- Received an insurance summary update.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Committee was satisfied with KPMG's work, its independence and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2023 for approval by the Company's Shareholders at the 2023 Annual General Meeting.

Carlson Tong
Audit & Risk Committee Chairman
Hong Kong, 9 March 2023

This Audit & Risk Committee Report has been reviewed and endorsed by the Committee.

RISK MANAGEMENT

SYSTEM FEATURES

Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework which underpins their day-to-day business activities. The framework provides a simple and effective management process to:

- Identify, assess, and effectively manage operational, functional, and enterprise risks across the Company
- Prioritise resources to manage risks
- Give management a clear view of the significant risks facing the Company
- Support decision making and project execution for better business performance

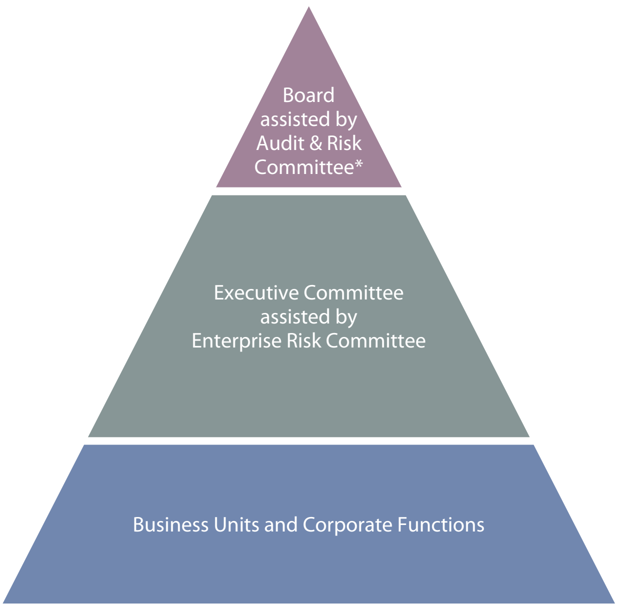
The Board, with the assistance of the Audit & Risk Committee oversees the Company's ERM framework and top risks, whereas the Executive Committee, with the support of the Enterprise Risk Committee ("ERC"), is overall accountable for the ERM policy and system implementation and continuous improvement.

The Executives provide top-down views on the key risks of the Company through discussions on quarterly enterprise risk reports, receive technical input and analysis, make informed decisions and take decisive tactical and strategic action on the key risks that the Company faces. Two "Blue Sky" workshops were held in July and November 2022 respectively. At the July workshop, the Executives discussed the impact of increasing interest rates and worsening inflation on the Company's businesses. At the November workshop the Executives had a more in-depth discussion and review on the risks associated with inflation and rising interest rates, as well as contemporary issues such as currency risk, supply chain challenges and the risk of economic slowdown in Mainland China and Hong Kong.

The Company's risks are rigorously identified, assessed and managed. Each risk is evaluated on the likelihood of occurrence as well as potential consequence while taking existing controls into consideration. A risk matrix is used to determine a risk rating (E1 – E4), with E1 being a relatively high risk and E4 being a relatively low risk. The risk rating determines the required level of management attention and risk treatment effort, while considering the Company's risk appetite. The highest category of risk, "E1", is subject to Board, Board Committee and Executive Committee oversight.

While encountering risk is inevitable in the course of business, the Company's appetite for risk varies and is particularly low in certain areas such as in relation to public and employee safety and the provision of a reliable transport service.

The Company's ERM system provides an important internal control in identifying, assessing and managing risks affecting the Company. As a learning organisation, the Company constantly looks for improvement opportunities through internal and external reviews and studies, as well as learning from incidents encountered during its operations. On 13 November 2022, our



- Exercise ongoing risk oversight
- Establish appropriate risk management strategies
- Oversee the ERM framework
- Review top risks and emerging risks
- Conduct annual review of ERM system effectiveness

- Implement and continuously improve ERM framework
- Enterprise Risk Committee
  - Chaired by Legal and Governance Director
  - Comprises representatives from all business units and corporate functions
  - Steers framework implementation and improvement
  - Reviews Company's top risks and key emerging risks
  - Reports to Executive Committee and Audit & Risk Committee quarterly, and to Board every six months

- Establish arrangements and implement risk management process consistent with the Company's ERM framework and policy
- Manage risks, and identify and implement risk controls
- Capture identified risks in risk registers for regular review and monitoring

* *See the Audit & Risk Committee Report (pages 135 to 137 of this Annual Report) for duties and work performed by the Committee in 2022.*

Tsuen Wan Line ("TWL") service in Hong Kong was interrupted after a TWL train struck a dislodged permanent fixed metallic protection barrier along the trackside, leading to a train front wheel axle moving off the rail. Following the incident, the rear end detrainment ramp of the incident train was operated by passengers without the knowledge of the train captain, as the communication system had been damaged by the incident.

A comprehensive incident investigation was immediately initiated which found that the mounting bolts and nuts of the metallic protection barrier were seriously corroded at its base frames. The barrier involved in the incident and similar other barriers were not registered in the asset management system, and hence had not been subject to specific maintenance inspections. A series of follow-up actions, including enhancement of the associated maintenance regime, upgrading or replacement of all barriers of a similar nature, and the commencement of a comprehensive trackside infrastructure and equipment survey, were undertaken. The Company has also taken action to improve public communications in the event of an incident through the use of more standard messages (where possible) and is adding a function on all trains to send a direct alert to the Operations Control Centre whenever a detrainment ramp is operated.

On 5 December 2022, our Tseung Kwan O Line service was interrupted after a device inside the coupler connecting two train cars was dislodged, leading to lengthening of the train gangway. An in-depth investigation has been undertaken together with the equipment supplier, while immediate inspections were conducted based on the advice of the supplier.

Following these two incidents, the Company has commissioned a comprehensive review of its asset management and activities, with the aim of further enhancing the company's asset management.

MANAGEMENT PROCESS FOR SIGNIFICANT RISKS

The Company adopts a proactive management process to identify, evaluate, treat, report and monitor significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Risk management strategies are developed for different areas including, but not limited to, operations, construction, finance, and environment, social and governance ("ESG"). ESG risks identified through the ERM framework are further mapped against relevant issues under ISO 26000 for materiality assessment purposes.

Identify Risk*

- Existing businesses
- Changing external environment
- New projects or business ventures
- New and emerging issues or trends which may pose significant risks
- List of running issues and risk drivers for brainstorming
- Change in laws and regulations

Evaluate Risk

- Evaluate risk by estimating likelihood and consequence of the risk event
- Determine risk rating using the risk matrix (E1-E4)

Treat Risk*

- Take into account risk appetite
- Avoid risks where no appetite and possible to do so
- Mitigate – review controls in place to evaluate adequacy and effectiveness and ensure owners in place to implement
- Transfer – take out insurance to transfer risks where cost effective and efficient
- Accept once mitigated to an appropriate level

Report and Monitor Risk

- Capture risks in risk registers
- Periodic ERM reports to
  - Enterprise Risk Committee
  - Executive Committee
  - Audit & Risk Committee
  - Board

* *Areas below are not exhaustive*

The ERM Team within the Legal and Governance Function maintains a list of running issues and risk drivers pertinent to the changing business and external environments, which is used to assist the ERC in identifying potential risks that may emerge.

In addition, the ERC and the Executive Committee review the Company's enterprise risk profile and brainstorm emerging risks quarterly to ensure key risks are captured, assessed and controlled. The Board also reviews these on a six-monthly basis.

Key risk management focus areas for the Company include:

Effective and Balanced Relationship with Key Stakeholders	
Key Challenges	• Challenging political landscape and diverse stakeholder expectations • Upholding public confidence in light of operational incidents • Building relationships with communities and stakeholders affected by new projects
Key Controls	• Implement proactive tailored engagement plans for different stakeholders to maintain effective communication and understanding • Fulfill the Company's operating obligations and maintain good performance

Operations	
Key Challenges	• Uphold asset performance while assets are ageing • Manage interfaces from works along the operating railway to mitigate any major impact on train services • Secure sufficient Non-traffic Hours ("NTH") possessions to meet asset replacement and maintenance needs • Replace complex signalling systems in a live operating railway environment • Unplanned disruption of services due to incidents
Key Controls	• Strengthened governance of asset replacement strategy to manage asset replacement demand • Comprehensive review on asset management and activities for continuous improvement opportunities • Explore use of technology to monitor asset condition and performance • Railway Protection and assurance teams to review potential railway interface hazards • Secure required NTH possessions through the NTH Office established to coordinate supply and demand across business units and invest in necessary resources • Engage independent safety assessor to assist delivery of safety critical projects to safety and quality standards • Comprehensive investigation of incidents followed by implementation of corrective and preventative actions

People	
Key Challenges	• Talent recruitment and retention especially for specific disciplines, new/growth business • Challenging employee relations environment due to more diverse and polarised views • Health threat to the workforce, loss of productivity and potential impact on normal operations arising from the COVID-19 pandemic
Key Controls	• Succession planning, talent development, forward manpower planning and resourcing strategies • Employee Engagement Survey to gauge more accurately staff sentiment, addressing issues raised via action plan executed by taskforces • Proactive employee engagement through various communication channels, starting with the onboarding process • Provision of personal protective equipment for staff such as face masks and test kits, special work arrangements and implementation of business continuity arrangements, as appropriate, with due consideration of prevailing situation and restrictions • Enhanced cleaning and sterilisation of workplaces, including offices, depots, stations and trains

New Projects Quality, Programme and Cost	
Key Challenges	• Delivering new projects on time, within budget, and to the expected standard of quality while meeting stakeholder expectations • Obtaining adequate and timely NTH possessions to deliver new projects on time while need for operational maintenance/asset replacement NTH possessions is met • Negotiation of Project Agreements for new projects with Government
Key Controls	• Deploy Three Lines of Defence to provide project assurance, including audits and assurance to ensure compliance with processes and procedures • Revamped Capital Works Project Integrated Management System • Monitoring of project quality and progress against Key Performance Indicators • Stringent control of change and management of contingency funds • Introduction of competency and resource management framework in the Capital Works Business Unit to ensure sufficient staff with the right skills and competencies • Increased use of technology to deliver and manage projects, including the use of Building Information Modelling ("BIM") and digital supervision and record keeping • NTH Office established to coordinate supply and demand for track possessions across business units and to develop initiatives and procure resources to improve possession efficiency • Proactive engagement with Government to establish the future way of delivering railway projects

New Business Model/Technological Disruption/Competition	
Key Challenges	• Current business model disrupted by new technology • Manage competition from other transport providers
Key Controls	• Invest in technology and digital solutions to strengthen business model • Monitor competition from other transport providers and implement initiatives to maintain market share

Delivery of Growth Strategy	
Key Challenges	• Uncertain business model for future new lines in Hong Kong • Keen competition for business opportunities outside Hong Kong • Business performance below bid models and assumptions • Heightened geopolitical/isolationist risk
Key Controls	• Ongoing engagement with Government to establish business models for new lines in Hong Kong • Maximise branding effect of the Company and stakeholder engagement • Diversify the Company's businesses in locations outside Hong Kong and conduct regular scans for new business opportunities • Formulate and implement business improvement plans for underperforming businesses

Security Threat (Cyber/Physical)	
Key Challenges	• Threat of cyber-attack on Operations and IT systems • Terrorist attack threat
Key Controls	• Enhanced IT network resilience to protect against cyber attacks • Implementation of cyber security protection systems for IT and railway operations systems • Enhanced security measures • Enhanced corporate security governance framework

The long-term financial sustainability of the Company is continuously monitored by the Board and the Executive Committee. The prolonged COVID-19 pandemic is a key enterprise risk which has and continues to significantly affect the Company's businesses over the course of 2022, and has required careful management to mitigate the financial, operational, staff and customer impacts. Our recurrent businesses will benefit from the revitalisation of the travel, tourism and retail industries when the world gradually transitions towards a more manageable endemic era of COVID-19. Overall, the financial position of the Group remains sound. The Group has also been implementing transformation initiatives with a view to further improving the Group's profitability in the longer-term, while the new railway and other projects in the pipeline will also contribute to the Group's long-term financial sustainability.

Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal and Governance Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ending 31 December 2022 to the Executive Committee, who confirmed its agreement with the review results on 9 February 2023 and to the Audit & Risk Committee on 27 February 2023, who likewise confirmed their agreement with the review results.

The Audit & Risk Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's ERM system and considers it to be overall "effective and adequate", based on a number of review areas.

Factors considered during the review

- Review areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of subsidiaries/associates
- Risk management of subsidiaries/associates
- Benchmarking/roundtable/peer group engagements and interactions
- Risk management training and promotion events held in 2022

Conclusion

The ERM system was considered overall effective and adequate for the year ended 31 December 2022.

CONTINUOUS PROCESS IMPROVEMENT

Key initiatives undertaken in relation to the ERM system in 2022 include the following:

- The ERM Team continued to produce ERM Newsletters for dissemination to all staff focusing on topical issues in risk management, aiming to raise risk awareness and share good risk management practices.
- The annual event of the Risk Awareness Week (or "RAW") for promoting risk awareness and risk management discussions across the organisation was kicked off on 12 October 2022 by a keynote seminar on managing Diversity, Equity and Inclusion inaction risks for business sustainability. The seminar was well received and was attended by approximately 330 senior managers. As part of the RAW, four half-day interactive workshops on barrier-based risk management using the Bow-Tie risk analysis method were attended by approximately 70 senior supervisors/managerial staff from different Business Units/Functions. These workshops helped uplift risk management skills within the organisation.
- Over the course of 2022, the Company has continued to implement its strengthened Three Lines of Defence ("3LoD") model through the independent Assurance Management Department, complemented by technical and engineering Centres of Excellence and a new Strategic Assurance Review Board which serves to coordinate and focus assurance activities, as well as to highlight any insights or concerns to relevant Executives. Although in the early implementation phase, the newly formed Second Line of Defence ("2LoD") has introduced and piloted the refreshed 3LoD model and framework within the Capital Works Business Unit and has expanded its rollout to Hong Kong Transport Services and other Business Units. While a substantial journey remains, the foundation for an effective 2LoD has been established.
- We keep ourselves abreast of the latest developments in risk management through reviews with users, reviewing a variety of global risk reports, and cross-industry benchmarking and experience sharing, including through participation in UK and Hong Kong ERM Roundtable meetings.

CAPITAL WORKS COMMITTEE REPORT

As at the date of this Report, the Capital Works Committee of the Company (referred to as the "Committee" in this report) consists of five Non-executive Directors, four of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2022 are set out on pages 120 to 122 of this Annual Report.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the website of the Company (www.mtr.com.hk).

The principal duties of the Committee include overseeing any capital project of the Company in Hong Kong and outside of Hong Kong involving design and/or construction activities ("Relevant Project") with a capital value in excess of HK$10 billion and any other Relevant Project, in the event that such Relevant Project is four months or more behind programme on an overall basis; reviewing the progress of such projects, from both a programme and cost perspective; reviewing matters that could have a material impact on the quality, delivery and management of such projects, including processes and protocols adopted by the Company in supervising and managing the projects and non-compliances in relation to materials, works and processes; checking that there are adequate resources for such projects; keeping under review the Company's communication strategy and protocols, and crisis management plans in respect of such projects; and reporting to the Board on a quarterly basis or ad hoc basis if the Committee deems appropriate, in respect of the above.

Agendas for each meeting are drawn up, taking into account topical matters relating to the projects at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom in a report to the Board after each Committee meeting.

WORK PERFORMED BY THE COMMITTEE IN 2022

In 2022, the Committee held four meetings at which the following key matters were reviewed and considered:

- progress and cost status of the Company's capital projects under construction including the Shatin to Central Link and the Signalling Replacement Works on the urban lines
- planning and design work for new railway projects under the Lantau Portfolio, including the Tung Chung Line Extension and Siu Ho Wan Depot Development, and the New Territories Portfolio, including the Tuen Ma Line Extension
- progress of continuous improvements under the Building Excellence programme for enhancing the capability of the Company's Capital Works Business Unit in railway project management
- half-yearly reports on the construction programme and cost status of all the awarded development projects of the Company's Property Business Unit in Hong Kong, including THE PAVILIA FARM at Tai Wai Station
- half-yearly reports on projects-related audits conducted by the Company's Internal Audit Department

Capital Works Director, General Manager – New Territories (Projects), General Manager – Lantau (Projects) and General Manager – Commercial Management attended all four Committee meetings in 2022, to report and answer questions on progress of projects and cost related matters. Operations Director attended all four meetings in 2022 to report and answer questions on Signalling Replacement Works. Property and International Business Director attended two meetings in 2022 to report and answer questions on progress of awarded Property development projects. Other executives and senior managers were also invited to attend Committee meetings when required. I thank Committee members and colleagues for their support and hard work.

Mr Cheng Yan-kee
Capital Works Committee Chairman
Hong Kong, 9 March 2023

The Capital Works Committee Report has been reviewed and endorsed by the Committee.

FINANCE & INVESTMENT COMMITTEE REPORT

The Finance & Investment Committee (referred to as the "Committee" in this report) was established on 1 February 2022. As at the date of this Report, the Committee consists of five Non-executive Directors, of which four are Independent Non-executive Directors (INEDs). The Chairman of the Committee is an INED. Details of the Committee's members and their attendance records during 2022 are set out on pages 120 to 122 of this Annual Report.

The Chief Executive Officer, the Finance Director, and the General Manager – Corporate Finance are required to attend all meetings of the Committee. Other executives and senior managers were also invited to attend Committee meetings when required.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Reviewing proposals from the Company's Executive Directorate on the following matters and providing an assessment of such proposals to the Board for its consideration:

- the annual budget and financing plan of the Company;
- the Company's preferred financing model;
- the Company's dividend policy;
- if in excess of the financial or other thresholds set by the Board, bank borrowings or other financing agreements, investments and disposals, parent company guarantees, expenditure and revenue contract awards;
- the strategy for (if in excess of the investment threshold set by the Board) and the award of tenders for the Company's property development projects in Hong Kong;
- the average and floor selling prices for units within the Company's property development projects;
- project proposals for new capital works projects in Hong Kong; and
- the investment caps for the Company's Mainland China and International Businesses and for any other part(s) of the Company's business.

WORK PERFORMED BY THE COMMITTEE IN 2022

During 2022, the Committee held seven meetings at which the following key proposals were reviewed and considered, and the Committee made corresponding recommendations to the Board for its consideration:

- the concession arrangement for the full operation of the Shatin to Central Link;
- the project agreements required for undertaking certain railway extension and property development projects;
- the Company's 2023 Budget and Longer-Term Forecast
- the Company's 2021 Final Dividend and 2022 Interim Dividend;
- Major lease and licence renewal of the Company's investment properties; and
- the tender arrangements and sales price proposals of various property development projects.

Mr Andrew Brandler
Finance & Investment Committee Chairman
Hong Kong, 9 March 2023

The Finance & Investment Committee Report has been reviewed and endorsed by the Committee.

REMUNERATION COMMITTEE REPORT

INTRODUCTION

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the Non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's Core Incentive Scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the Non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven Non-executive Directors, four of whom are independent Non-executive Directors. The Chairman of the Remuneration Committee is an independent Non-executive Director. As necessary and with the agreement of the Chairman of the Remuneration Committee, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

The principal responsibilities of the Remuneration Committee include:

- Formulating a remuneration policy and practices that facilitate the employment of top quality talent;
- Recommending to the Board the remuneration of the Non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

The Committee's responsibilities are set out in its Terms of Reference and are consistent with the Code.

This Remuneration Committee Report has been reviewed and authorised by the Remuneration Committee of the Company.

REMUNERATION POLICY

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and the desired mix of fixed and performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality talent. The Company also recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are Non-executive Directors. The remuneration of Non-executive Directors is in the form of annual director's fees.

To ensure that Non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the Non-executive Directors; and
- Employment conditions elsewhere in the Company.

During the third quarter of 2020, the Company appointed an independent consultant to undertake a Board Evaluation exercise with a view to enhancing Board effectiveness and ensuring that the Board is fit for supporting the implementation of the new corporate strategy. Based on the consultant's findings and recommendations, a new Finance & Investment Committee and a new Technology Advisory Panel was established with effect from 1 February 2022. The Remuneration Committee reviewed the proposed membership fee of the said new Committee and Panel and recommended for approval by the Board in January 2022. Details of the remuneration for the Non-executive Directors are set out in note 11 to the consolidated financial statements. The current Non-executive Director fees payable in respect of each Board Committee and Panel in effect since 1 February 2022, is set out below:

	(HK$)
Board	
– Chairman	1,500,000
– Other Members	300,000
Audit & Risk Committee and Capital Works Committee	
– Chairman	150,000
– Other Members	90,000
Finance & Investment Committee, Remuneration Committee, Nominations Committee, Environmental & Social Responsibility Committee, and Technology Advisory Panel	
– Chairman	110,000
– Other Members	60,000

REMUNERATION FOR EMPLOYEES

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- variable incentives – discretionary or performance-based payment and other business-specific cash incentive plans;
- long-term incentives – e.g. restricted shares and performance shares; and
- retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and the individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and management of the Company are eligible to receive an annual performance-based cash incentive under the Company's Core Incentive Scheme ("CIS"), the terms and rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the overall CIS funding is subject to the Company's performance which is measured by both financial and non-financial factors including:

Financial Factors

- Operating profit;
- EBITDA margin; and
- Hong Kong property development profits.

Non-financial Factors

- Results from Customer satisfaction surveys;
- Fulfillment of the Customer Service Pledges; and

- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

CIS funding will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges. The final payout will then be adjusted based on the performance of individual employees.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance against the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the funding under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Performance for the Chief Executive Officer is assessed by the Chairman, and the individual performance ratings for other Members of the Executive Directorate are determined by the Chief Executive Officer.

Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 25-35% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2022, discretionary awards were provided to non-managerial staff with competent or above performance, as a recognition of their contribution to the Company's performance and achievements in the past year and to motivate staff to strive for continuous business growth. In addition, a one-off special – award was granted to all staff in 2022 as a token of appreciation for their hard work to keep Hong Kong moving in the past year, in spite of the challenges arising from the pandemic.

Long-Term Incentives

During 2022, the Company maintained the Executive Share Incentive Scheme.

Executive Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Share Option Scheme on 6 June 2014. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the Executive Share Incentive Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2022. Award holders are entitled to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee and vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee).

Performance Shares are awarded every three years and vest subject to the performance of the Company over a pre-determined performance period, assessed with reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time. For the current performance share grant covering 2021 to 2023, performance metrics include financial metrics and operational and strategic metrics to support the Company's growth and transformation, Environmental, Social and Governance commitments and project delivery in Hong Kong.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares. For purpose of the Amended Chapter 17 of the Listing Rules, the scheme is classified as "share schemes involving existing shares of listed issuers".

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

Details of the Executive Share Incentive Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme are set out in notes 11 and 44 to the consolidated financial statements.

Retirement Schemes

In Hong Kong, the Company operates four retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", with details as follows:

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times years of service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF scheme and were eligible to join the MTR Provident Fund Scheme but opted to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

The Members of the Executive Directorate who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other Members of the Executive Directorate are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Dr. Jacob Kam, the Company's Chief Executive Officer effective from 1 April 2019, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, Macau, the Mainland China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPFSO and, in the case of subsidiaries in Macau, the Mainland China and overseas, their respective local laws and regulations.

WORK PERFORMED BY THE REMUNERATION COMMITTEE DURING THE YEAR

- Approved the 2021 Remuneration Committee Report as incorporated in the 2021 Annual Report;
- reviewed and approved payouts under the Company's performance-based CIS for the 2021 performance period;
- reviewed and approved restricted share and/or performance share awards for eligible employees under the Executive Share Incentive Scheme;
- conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2022;
- conducted review on the remuneration packages for Members of the Executive Directorate, as appropriate; and
- endorsed the membership fees payable to non-executive Directors under the new Board Committee structure

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

The total remuneration of the Members of the Board and the Executive Directorate is shown below and the remuneration details are set out in note 11 to the consolidated financial statements.

in HK$ million	2022	2021
Fees	**9.7**	10.0
Base salaries, allowances and other benefits-in-kind	**62.6**	56.5
Variable remuneration related to performance	**21.9**	13.6
Retirement scheme contributions	**6.5**	6.1
Share-based payments	**29.9**	14.3
Total	**130.6**	100.5

Please refer to note 11 to the consolidated financial statements for information relating to the five highest paid employees of the Company for the year ended 31 December 2022.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairperson
Hong Kong, 20 February 2023

BOARD AND EXECUTIVE DIRECTORATE

Full biographies of Members of the Board and the Executive Directorate are available on the Company's website (www.mtr.com.hk).

MEMBERS OF THE BOARD

Dr Rex Auyeung Pak-kuen*

GBS, JP

Age 70

Chairman (since 1 July 2019)
NED (since 7 March 2019)
Environmental & Social Responsibility Committee *(Chairman)*
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Dr Auyeung is the vice chairman and an independent non-executive director of C-MER Eye Care Holdings Limited, and an independent non-executive director of China Construction Bank (Asia) Corporation Limited.

Dr Auyeung has over 40 years of experience in the insurance industry in Canada and Hong Kong. Before his retirement in June 2017, he was Chairman – Asia of the Principal Financial Group Inc. ("PFG"), a Fortune 500 company, responsible for PFG's overall businesses in Asia.

Dr Auyeung also actively serves the public sector and is currently a member of the Board of Directors of the Investor and Financial Education Council under the Securities and Futures Commission, a board member of Bo Charity Foundation (Food Angel) and a convenor of the Advisory Committee of the Jockey Club Community eHealth Care Project.

Dr Auyeung was previously an independent non-executive director of HSBC Provident Fund Trustee (Hong Kong) Limited, Standard Life (Asia) Limited and Sompo Insurance China Co., Ltd., the chairman of Hong Kong Strategy for Financial Literacy Sub-committee on Stakeholder Coordination and Collaboration, an observer of the Independent Police Complaints Council Observers Scheme, a member of the Independent Review Committee on Hong Kong's Franchised Bus Service, the chairman of the Council of Lingnan University and the Senior Strategy and Business Advisor at Athenex Inc., a company listed on NASDAQ in the United States of America.

Dr Jacob Kam Chak-pui*

JP

Age 61

Chief Executive Officer ("CEO") (since 1 April 2019)
Environmental & Social Responsibility Committee *(Member)*

Dr Kam joined the Company in 1995 and had held various management positions in the Operations, Projects and Mainland China and International Business Divisions. Before the CEO appointment, he was the Operations Director between January 2011 and April 2016 and the Managing Director – Operations and Mainland Business from May 2016.

As the CEO, Dr Kam is responsible for all performance of the Company and its group companies, both in and outside Hong Kong.

Dr Kam is a member of the Hong Kong Quality Assurance Agency Governing Council, the board of directors of The Community Chest of Hong Kong, the General Committee of The Hong Kong General Chamber of Commerce, and the General Committee of the Employers' Federation of Hong Kong. He is also an Honorary Chairman of the International Association of Public Transport (UITP).

Dr Kam qualified as a Chartered Engineer in the United Kingdom in 1989.

Andrew Clifford Winawer Brandler^

Age 66

INED (since 17 May 2017)
Finance & Investment Committee *(Chairman)*
Audit & Risk Committee *(Member)*

Mr Brandler is the chairman of Sir Elly Kadoorie & Sons Limited. He was formerly the group managing director and chief executive officer of CLP Holdings Limited from 2000 to 2013, an executive director between October 2013 and April 2014, and currently is the vice chairman of the board and a non-executive director of that company. Mr Brandler is also the non-executive deputy chairman of The Hongkong and Shanghai Hotels, Limited, and a non-executive director of Tai Ping Carpets International Limited. He is also currently the Chairman of the Board of Governors of the Chinese International School.

Prior to joining CLP Holdings Limited in 2000, Mr Brandler was an investment banker, his last position being Head of Asia Pacific Corporate Finance at Schroders based in Hong Kong. He is the former chairman of The Hong Kong General Chamber of Commerce and a member of the Operations Review Committee of the Independent Commission Against Corruption.

Mr Brandler is a member of The Institute of Chartered Accountants in England and Wales.

Dr Bunny Chan Chung-bun^

GBM, GBS, SBS, BBS, JP
Age 65

INED (since 20 May 2020)
Environmental & Social Responsibility Committee *(Member)*
Finance & Investment Committee *(Member)*

Dr Chan has over 30 years of experience in the garment industry and is the founder and chairman of Prospectful Holdings Limited. He is an independent non-executive director of Li Ning Company Limited, Great Harvest Maeta Group Holdings Limited and Glorious Sun Enterprises Limited. Dr Chan is currently a member of the Hong Kong delegation to the National People's Congress of the People's Republic of China. He is also the chairman and a founding member of the Hong Kong Army Cadets Association, a member of the Court of Hong Kong Metropolitan University ("HKMU") (formerly The Open University of Hong Kong ("OUHK")), and an advisor to Our Hong Kong Foundation.

Dr Chan was formerly an independent non-executive director of Speedy Global Holdings Limited. He was appointed to the Commission on Youth in 2004 and was the chairman from 2009 to 2015. Dr Chan set up the Hong Kong Association of Youth Development in 2007 and was the former chairman of the Kwun Tong District Council and the vice-chairperson of the Community Care Fund Task Force of the Commission on Poverty. He also served on the Financial Reporting Council, the Social Welfare Advisory Committee, the Personal Data (Privacy) Advisory Committee, and the Council for Sustainable Development.

Walter Chan Kar-lok

SBS, JP
Age 69

INED (since 22 May 2019)
Nominations Committee *(Member)*
Capital Works Committee *(Member)*

Mr Chan has been a practising lawyer for over 40 years and is currently a consultant of Messrs. So, Lung & Associates, Solicitors. He is also a China Appointed Attesting Officer. Mr Chan currently is the chairman of The Hong Kong Housing Society, and a member of the Advisory Committee on Post-service Employment of Civil Servants.

Mr Chan was formerly the chairman of Appeal Tribunal (Buildings), a non-executive director of the Urban Renewal Authority, a member of the Housing Authority, the Town Planning Board, the Harbourfront Commission and the Board of Advisors of Radio Television Hong Kong, and a convenor-cum-member of the Pensions Appeal Panel under the Civil Service Bureau.

Dr Pamela Chan Wong Shui#

Age 76

INED (since 4 July 2013)
Nominations Committee *(Chairman)*
Environmental & Social Responsibility Committee *(Member)*

Dr Chan is chairman of The Insurance Complaints Bureau, The Boys' and Girls' Clubs Association of Hong Kong and the Advisory Committee of the Department of Social Behavioural Sciences of City University of Hong Kong. She is a member of the Judicial Officers Recommendation Commission and third vice president of the board of The Community Chest of Hong Kong. Dr Chan is also patron of Consumers International.

Dr Chan was chief executive of the Consumer Council, chairman of the Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council and the Court, chairman of the governing committee of Princess Margaret Hospital, a member of the Law Reform Commission of Hong Kong, Hospital Authority, The Hong Kong Housing Authority, Estate Agents Authority and the Private Columbaria Appeal Board, and an independent director of the Travel Industry Council of Hong Kong.

Dr Dorothy Chan Yuen Tak-fai*^

Age 73

INED (since 4 July 2013)
Remuneration Committee *(Chairman)*
Capital Works Committee *(Member)*

Dr Chan is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics & Transport and advisor of the International College of the HKU School of Professional and Continuing Education, and a council member of HKU SPACE Po Leung Kuk Stanley Ho Community College. She is an independent non-executive director of AMS Public Transport Holdings Limited, a director of TWGHs E-Co Village Limited, a Strategy Advisor to the Serco Group (HK) Limited, a member of the Board of Governors of the Hong Kong Institute for Public Administration, a member of the Commercial Letting Panel under the Board of West Kowloon Cultural District Authority, and the Honorary Fellow and an advisor to the Council of Trustees of the Chartered Institute of Logistics and Transport ("CILT").

Dr Chan was a board member of the Logistics and Supply Chain MultiTech R&D Centre Limited, the chairperson of the Sustainable Agricultural Development Fund Advisory Committee, a member of the Social Welfare Advisory Committee and the Advisory Council on Environment of the HKSAR Government, and the International President, the Global Chairperson and a Global Advisor for Women in Logistics and Transport in CILT. She was previously the Deputy Commissioner for Transport of Government from 1995 to 2002. From 2000 to 2002, Dr Chan was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company.

Cheng Yan-kee*

BBS, JP

Age 68

INED (since 22 May 2019)
Capital Works Committee *(Chairman)*
Remuneration Committee *(Member)*

Mr Cheng is a practising civil and structural engineer, and an Authorised Person and a Registered Structural Engineer under the Buildings Ordinance. He is also a Class 1 Registered Structural Engineer in the People's Republic of China.

Mr Cheng currently is a director of H. K. Cheng & Partners Limited. He is also a member of the Advisory Committee on Post-service Employment of Civil Servants and the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials.

Mr Cheng formerly was an independent non-executive director of K. H. Group Holdings Limited, President of the Institution of Structural Engineers, and Chairman of both the Council of the Hong Kong Baptist University and the Corruption Prevention Advisory Committee under the Independent Commission Against Corruption. He was also a member of the Hospital Authority, Town Planning Board and Hong Kong Housing Authority.

Hui Siu-wai

SBS

Age 66

INED (since 26 May 2021)
Audit & Risk Committee *(Member)*
Capital Works Committee *(Member)*

Mr Hui joined the Hong Kong Government in 1978 as a student building surveyor. He worked in a wide range of posts in the former Buildings Ordinance Office, the former Building Development Department, the former Buildings and Lands Department and the Buildings Department. In 2001, he was seconded to the Security Bureau of the HKSAR Government and assumed the position of the Principal Assistant Secretary/Special Duties, with the primary responsibility of overseeing aviation security. Before his retirement, Mr Hui was the Director of Buildings between 2014 and 2017.

Mr Hui was appointed by the HKSAR Government and served as a member of the Expert Adviser Team for the Shatin-to-Central Link Project between 2018 and 2020.

Mr Hui has been a member of the Hong Kong Institute of Surveyors since 1984.

Sunny Lee Wai-kwong*

BBS, JP

Age 63

INED (since 25 May 2022)
Nominations Committee *(Member)*
Technology Advisory Panel *(Member)*

Mr Lee has more than 30 years of experience in business and technology management gained in both Hong Kong and overseas. He is the vice-president (Administration) of City University of Hong Kong, and an independent non-executive director of SUNeVision Holdings Ltd and BOC Hong Kong (Holdings) Limited.

Mr Lee was the executive director of information technology ("IT") of The Hong Kong Jockey Club ("HKJC"), where he served as a member of the board of management and had overall responsibility for HKJC's IT strategy and innovation. Prior to joining HKJC, Mr Lee held various key positions at The Hong Kong and China Gas Company Limited, including as an executive committee member, and as chief information officer of the group and chief executive officer of two strategic diversification businesses, iCare.com Limited and Towngas Telecommunications Company Limited.

Mr Lee also actively serves in many governing and advisory committees in the academic, professional and community arena. He is the board chairman of Hong Kong Applied Science and Technology Research Institute Company Limited, the chairman of Public Libraries Advisory Committee and an ex-officio member of the Committee on Innovation, Technology and Industry Development of the HKSAR, and a council member of each of Hong Kong Management Association, Hong Kong Quality Assurance Agency and Hong Kong Professionals and Senior Executives Association.

Mr Lee, formerly, was a president of Hong Kong Computer Society, a chairman of the Hong Kong Institute of IT Professional Certification, a council member of Vocational Training Council, an audit committee member of Hong Kong Housing Society, a member of Working Group of Intellectual Property Trading of the HKSAR, and a board chairman of Hong Kong Education City.

Mr Lee is a Chartered IT Professional and a Chartered Engineer.

Dr Rose Lee Wai-mun

JP

Age 70

INED (since 16 May 2018)
Remuneration Committee *(Member)*
Finance & Investment Committee *(Member)*

Dr Lee is an Independent Non-Executive Director of CK Hutchison Holdings Limited and Swire Pacific Limited. She is also a member of the Election Committee of the 13th National People's Representative Meeting, a Board Member of the West Kowloon Cultural District Authority, and Vice Patron of the Community Chest of Hong Kong. Dr Lee is a Fellow of The Hong Kong Institute of Bankers.

Dr Lee was previously Vice-Chairman and Chief Executive of Hang Seng Bank Limited, Group General Manager of HSBC Holdings plc, Director of The Hongkong and Shanghai Banking Corporation Limited and Chairman of the Board of Governors of The Hang Seng University of Hong Kong. In addition, she was previously Vice President of The Hong Kong Institute of Bankers, Board Member and Deputy Chairman of the Executive Committee of The Community Chest of Hong Kong, and a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council.

Jimmy Ng Wing-ka

BBS, JP

Age 53

INED (since 22 May 2019)
Nominations Committee *(Member)*
Environmental & Social Responsibility Committee *(Member)*

Mr Ng is a solicitor admitted to practise in Hong Kong and currently is a partner of Messrs. Tung, Ng, Tse & Lam, Solicitors. He is currently a member of the Hong Kong delegation to the National People's Congress of the People's Republic of China and a Legislative Council member representing the Industrial (Second) Functional Constituency. Mr Ng is an independent non-executive director of Yanchang Petroleum International Limited and Glorious Sun Enterprises Limited. He is also the chairman of the Hong Kong – Taiwan Business Co-operation Committee and the HKSAR Passports Appeal Board, a vice-chairman of the Independent Police Complaints Council, a non-executive director of Mandatory Provident Fund Schemes Authority and The Hong Kong Mortgage Corporation Limited, a director of Hong Kong Science and Technology Parks Corporation, and a member of the Court and the Council of The University of Hong Kong, the Council of The Hong Kong Polytechnic University, the Competition Commission and the Chinese People's Political Consultative Conference of Shaanxi Province, the People's Republic of China.

Mr Ng was formerly an independent non-executive director of China Weaving Materials Holdings Limited and a member of the Small and Medium Enterprises Committee of the Trade and Industry Department.

Carlson Tong

GBS, SBS, JP

Age 68

INED (since 25 May 2022)
Audit & Risk Committee *(Chairman)*
Finance & Investment Committee *(Member)*

Mr Tong is a chartered accountant and has extensive experience in the financial services sector and the capital market in both the Mainland China and Hong Kong markets. He is an independent non-executive director of Standard Chartered PLC.

Mr Tong joined KPMG UK in 1979 and became an audit partner of the firm in Hong Kong in 1989. He was elected chairman of KPMG China and Hong Kong in 2007, before becoming the Asia Pacific chairman and a member of the global board and global executive team of KPMG in 2009. Mr Tong spent over 30 years at KPMG and was actively involved in the work of the capital market, corporate governance and regulatory compliance, serving as a member of the Main Board and Growth Enterprise Market

Listing Committee of The Stock Exchange of Hong Kong Limited from 2002 to 2006, before becoming the chair during 2006 to 2008. After retiring from KPMG in 2011, he was appointed a non-executive director of the Securities and Futures Commission ("SFC"), and later acted as its chairman for the period from 2012 to October 2018. Mr Tong oversaw a number of major policy initiatives during his term as the chairman of the SFC, including the introduction of the Hong Kong and Shanghai/Shenzhen Stock connect schemes and the mutual recognition of funds between the Mainland and Hong Kong.

Mr Tong, formerly, was a non-executive director of the Hong Kong International Airport Authority, chairman of Aviation Security Company Limited, chairman of the University Grants Committee, a member of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority, a vice president and a council member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Human Resources Planning Commission.

Mr Tong currently sits on various HKSAR Government and professional bodies. He is the chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System, a board member of each of Hong Kong Investment Corporation Limited, the Hong Kong Academy of Finance and Hong Kong Laureate Forum Limited and an observer on behalf of the HKSAR Government for Cathay Pacific Airways Limited.

Mr Tong is a Fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants respectively.

Adrian Wong Koon-man

BBS, MH, JP

Age 58

INED (since 26 May 2021)
Audit & Risk Committee *(Member)*
Remuneration Committee *(Member)*

Mr Wong is an executive director and Chief Operations Officer of VL Asset Management Limited and a director of Abercan Limited. He is also a board member of Airport Authority Hong Kong and Aviation Security Company Limited, the chairman of the Corruption Prevention Advisory Committee, and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, and a member of the Travel Industry Authority, the Standing Commission on Civil Service Salaries and Conditions of Service and the Unsolicited Electronic Messages (Enforcement Notices) Appeal Board.

Mr Wong previously worked for commercial law firms in England and in Hong Kong and specialised in listings and mergers and acquisitions in the Greater China region. He was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited, a member of the Communications Authority, a member of the Air Transport Licensing Authority and a director of the Urban Renewal Fund.

Johannes Zhou Yuan#

Age 67

INED (since 17 May 2017)
Technology Advisory Panel *(Chairman)*
Audit & Risk Committee *(Member)*

Mr Zhou is an independent director of Citibank (China) Co., Ltd.

Mr Zhou retired in June 2016 as Chief Strategic Officer of China Investment Corporation ("CIC"). He joined CIC in 2008 and held a variety of portfolios of responsibilities including alternative assets, direct investments, asset allocation and finance/treasury. Prior to that, Mr Zhou led Asia business development at Chicago Mercantile Exchange. From 2001 to 2005, he worked as a financial researcher and consultant, working on assignments ranging in asset management, private equity, hedge funds, risk models, financial software architecture, and financial market reform, with consulting work done for the China Securities Regulatory Commission, Shanghai Futures Exchange and a number of western firms. From 1998 to 2001, Mr Zhou was chief executive officer of HKFE Clearing Corporation Limited and concurrently chief financial officer of Hong Kong Futures Exchange Limited, responsible for the Exchanges's finance, treasury, risk and clearing functions. He was UBS AG's China country head from 1994 to 1998, responsible for the bank's investment banking, commercial banking, asset management and private banking businesses in China. From 1988 to 1994, Mr Zhou worked at State Street Bank in Boston, where he founded and managed the research department. Prior to that, he taught at Brandeis University, United States of America.

Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury)

GBS, JP
Age 46

NED (since 1 June 2020)
Remuneration Committee *(Member)*
Finance & Investment Committee *(Member)*

Mr Hui sits on the boards of several public bodies, including Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, The Hong Kong Mortgage Corporation Limited and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation and an ex-officio member of the Financial Services Development Council ("FSDC") in his official capacity. He is also, in his official capacity, a director of Hongkong International Theme Parks Limited and Hong Kong Investment Corporation Limited. In addition, Mr Hui is a member of the Democratic Alliance for the Betterment and Progress of Hong Kong.

Mr Hui was an Administrative Officer in the HKSAR Government from 1999 to 2003 and held different positions in the Economic Development Branch, the Office of the HKSAR Government in Beijing and the Home Affairs Department. After he left the HKSAR Government in 2003, Mr Hui worked in the banking sector before joining Hong Kong Exchanges and Clearing Limited ("HKEx") in 2006. From 2006 to 2018, Mr Hui held various senior positions in the Market Development Division and Listing Division in HKEx and was the Managing Director at the time he left HKEx. He was the Executive Director of FSDC from 2019 to 2020.

Alternate Directors

(i) Joseph Chan Ho-lim *(since 1 June 2020)*
(ii) Cathy Chu Man-ling *(since 9 August 2021)*
(iii) Maurice Loo Kam-wah *(since 10 August 2020)*

Secretary for Transport and Logistics@ (Lam Sai-hung)

GBS, JP
Age 61

NED (since 1 July 2022)
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Mr Lam joined the Hong Kong Government as an Assistant Engineer in 1986. He was promoted to Chief Engineer in 2009 and to Principal Government Engineer in 2014. Mr Lam was appointed as Project Manager of the Hong Kong Island and Islands Development Office in the Civil Engineering and Development Department in 2015 and as the Director of Civil Engineering and Development in 2016. In his official capacity as the Permanent Secretary for Development (Works), he served as a Non-executive Director and a member of each of the Capital Works Committee and the former Risk Committee of the Company during the period from 13 October 2018 to 7 October 2021.

Mr Lam is the Chairman of the Hong Kong Maritime and Port Board, Hong Kong Logistics Development Council, and Aviation Development and Three-runway System Advisory Committee, and a Vice-Chairperson of the Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council. He is also a board member of Airport Authority Hong Kong and a member of the Council for Sustainable Development and the Steering Committee on Three-Runway System and North Commercial District.

Mr Lam is a Fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers, United Kingdom, and the China Hong Kong Railway Institution.

Alternate Directors

(i) Under Secretary for Transport and Logistics
(Liu Chun-san since 2 August 2022)

(ii) Permanent Secretary for Transport and Logistics
(Mable Chan since 1 July 2022)

(iii) Deputy Secretary for Transport and Logistics 1
(Sharon Yip Lee Hang-yee from 1 July 2022 to 29 January 2023 and Amy Wong Pui-man since 30 January 2023)

(iv) Deputy Secretary for Transport and Logistics 2
(Amy Wong Pui-man from 1 July 2022 to 29 January 2023 and Ida Lee Bik-sai since 30 January 2023)

Permanent Secretary for Development (Works)@ (Ricky Lau Chun-kit)

JP
Age 56

NED (since 8 October 2021)
Nominations Committee *(Member)*
Capital Works Committee *(Member)*

Mr Lau joined the Hong Kong Government in March 1992 and was the Director of Civil Engineering and Development from October 2018 to October 2021.

Mr Lau is a fellow of The Hong Kong Institution of Engineers and the Institution of Civil Engineers, United Kingdom.

Alternate Director

Deputy Secretary for Development (Works)3
(Francis Chau Siu-hei since 3 March 2022)

Commissioner for Transport@ (Rosanna Law Shuk-pui)

JP
Age 55

NED (since 9 September 2020)
Audit & Risk Committee *(Member)*
Technology Advisory Panel *(Member)*

Miss Law, in her official capacity as the Commissioner for Transport, also serves as a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company Limited, Western Harbour Tunnel Company Limited and Route 3 (CPS) Company Limited.

Miss Law joined the Hong Kong Government in 1989 and has served in various policy bureaux and departments, including as the Principal Assistant Secretary for the Environment, Transport and Works (Transport) (later renamed to the Principal Assistant Secretary for Transport and Housing (Transport)) from March 2007 to August 2009, the Deputy Commissioner for Tourism from August 2010 to September 2016, and the Deputy Secretary for Constitutional and Mainland Affairs from September 2016 to September 2020.

Alternate Director

Deputy Commissioner for Transport/Transport Services and Management
(Macella Lee Sui-chun since 1 September 2016)

Notes:

* *Also a director of the Company's subsidiary(ies).*

^ *Up for retirement by rotation and eligible for re-election at the Company's forthcoming Annual General Meeting ("AGM").*

Director who will retire after the conclusion of the Company's forthcoming AGM.

@ *Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance, who is not required to retire by rotation under the Articles of Association.*

INED : independent non-executive director

NED : non-executive director

MEMBERS OF THE EXECUTIVE DIRECTORATE

Dr Jacob Kam Chak-pui*

JP
Age 61

Chief Executive Officer (since 1 April 2019)
Environmental & Social Responsibility Committee *(Member)*

His biography is set out on page 150.

Adi Lau Tin-shing

Age 63

Managing Director – Mainland China Business and Global Operations Standards (up to 31 December 2022)

Mr Lau was the Managing Director – Mainland China Business and Global Operations Standards from July 2021 to December 2022. He retired from the Company after 31 December 2022 after cumulatively 40 years of service.

Margaret Cheng Wai-ching*

JP
Age 57

Human Resources Director (since 1 June 2016)
Environmental & Social Responsibility Committee *(Member)*

Ms Cheng is responsible for all of the Company's human resources and administration affairs. She is currently the President of MTR Academy.

Ms Cheng is a seasoned human resources practitioner with rich senior management experience. She took up different human resources roles in Citibank, N.A. between 1993 and 1997, and was with JP Morgan as Vice President, Human Resources between 1997 and 2001. From 2001 to

Members of the Executive Directorate
From left to right:
Dr Tony Lee Kar-yun, Margaret Cheng Wai-ching, David Tang Chi-fai, Herbert Hui Leung-wah, Dr Jacob Kam Chak-pui, Jeny Yeung Mei-chun, Linda Choy Siu-min, Adi Lau Tin-shing, Gillian Elizabeth Meller, Carl Michael Devlin, Sammy Wong Kwan-wai

2013, Ms Cheng was with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and was Head of Human Resources, Hong Kong and Global Business, Asia Pacific when she left HSBC. Before joining the Company, she was Group Head of Human Resources of Hong Kong Exchanges and Clearing Limited.

Ms Cheng is serving various public duties at the HKSAR Government, including acting as the vice chairman of the Cross-Industry Training Advisory Committee for the Human Resource Management Sector under the Qualifications Framework of Education Bureau; a member of the Standing Committee on Directorate Salaries and Conditions of Service; a member of the Panel of Arbitrators appointed under the Labour Relations Ordinance; and a non-official member of the Civil Service Training Advisory Board. She is also the chairman of the Career Development Board of The Chinese University of Hong Kong, the vice-chairman of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications and the chair of the Business Development Committee, a board member of the Hospital Authority and the chairman of the Human Resources Committee, a council member of The Hong Kong Management Association, and a member of the Employees Retraining Board.

Ms Cheng is currently the Immediate Past President and a Fellow Member of the Hong Kong Institute of Human Resource Management.

Linda Choy Siu-min

Age 52

Corporate Affairs and Branding Director (since 1 July 2021)

Ms Choy joined the Company as the Corporate Affairs Director in March 2020.

Ms Choy is responsible for overseeing the Company's corporate communications, corporate relations and branding functions.

Ms Choy has extensive experience in public affairs and communications, public engagement and journalism. She started her career in 1992 as a reporter for the South China Morning Post ("SCMP") and later joined the HKSAR Government as an Administrative Officer, holding a number of positions in various policy bureaux between 1998 and 2004. Ms Choy rejoined SCMP as its China News Editor in 2004 and was later promoted to News Editor before she took on the position of Director, Government Relations of Hong Kong Disneyland Management Limited ("HKDML") in 2007. In 2008, she left this role and was appointed by the HKSAR Government as the Political Assistant to the Secretary for the Environment until 2012, after which she rejoined HKDML as its Vice President, Communications & Public Affairs, a position which she held from 2013 to January 2020.

Ms Choy is currently an Honorary Advisor of Make-A-Wish Foundation of Hong Kong Limited, a Non-official Member of both the Community Involvement Committee on Greening and the Lantau Development Advisory Committee, and a Member of the Board of Advisors of Radio Television Hong Kong, the Public Libraries Advisory Committee, and the Advisory Board of The Hong Kong Red Cross. She was formerly the President of the Hong Kong Association of Amusement Parks and Attractions Limited and the Vice-chairwoman of Lantau Development Alliance Limited.

Carl Michael Devlin

Age 53

Capital Works Director (since 1 August 2022)

Mr Devlin joined the Company in November 2021.

Mr Devlin is responsible for leading the Capital Works Business Unit and overseeing the Company's capital works portfolio, covering new railway extensions and operations projects.

Mr Devlin possesses extensive experience across a range of large-scale, complex and multi-disciplinary projects in different sectors including transport, rail and civil infrastructure, aviation, energy, oil and gas. He has a strong project management background with solid business leadership experience and has worked successfully with stakeholders and international companies in the United Kingdom, New Zealand, Australia, United States of America, Canada and Japan. Before joining the Company, Mr Devlin was General Manager, Rail & Mass Transit of Waka Kotahi New Zealand Transport Agency. Prior to that, from 2015 to 2018, he was the Executive Director of Construction for Horizon Nuclear Power in the United Kingdom and Programme Director for Transport for London, United Kingdom, from 2013 to 2015. Mr Devlin previously held senior leadership roles with Laing O'Rourke, BAA plc and Bechtel Infrastructure.

Mr Devlin is a Chartered Member of Engineers Ireland.

Herbert Hui Leung-wah*

Age 60

Finance Director (since 2 July 2016)

Mr Hui joined the Company in June 2016.

Mr Hui is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting and corporate finance. He also leads the treasury and investor relations functions. Mr Hui is the chairman of the Tender Board and of the Board of Trustees of both the Retirement Scheme and Provident Fund Scheme of the Company.

Mr Hui has extensive corporate finance and investment banking experience. He began his career at Morgan Stanley Asia Limited in 1988. Mr Hui left in 1990 to pursue a career in corporate finance with Wardley Corporate Finance Limited (later known as Corporate, Investment Banking and Markets Division of The Hongkong and Shanghai Banking Corporation Limited) and was the Chief Operating Officer, Investment Banking, Asia Pacific and Co-Head, Corporate Finance Execution when he left in 2004. He was General Manager – Corporate Finance of the Company from 2004 to 2011, and the Chief Financial Officer of Digital China Holdings Limited from 2011 to

2012. Mr Hui was the Chief Financial Officer of K. Wah International Holdings Limited before re-joining the Company in 2016.

Mr Hui is a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government and the chairman of its ICAC Sub-Committee, and a non-official member of the Advisory Committee on Chinese Medicine Development Fund supervised by the Health Bureau. He is also a director of HKBU Chinese Medicine Hospital Company Limited and the chairman of its Human Resources Committee.

Mr Hui is a Chartered Financial Analyst.

Dr Tony Lee Kar-yun*

Age 62

Operations Director (since 1 January 2020)

Dr Lee joined the Company in 1991 and has held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong.

Dr Lee is responsible for managing the Company's railway related operations in Hong Kong.

Dr Lee is a Chartered Engineer and is a Member of The Institution of Engineering and Technology and The Hong Kong Institute of Directors. He is also a Member of the Advisory Committee of the Department of Electrical and Electronic Engineering of The University of Hong Kong, the Engineering Discipline Advisory Board of the Hong Kong Institute of Vocational Education and a Member of the Technical Committee of National Rail Transit Electrification and Automation Engineering Technology Research Center (Hong Kong Branch).

Gillian Elizabeth Meller*

Age 50

Legal and Governance Director
(since 22 February 2021)
Environmental & Social Responsibility Committee *(Member)*

Ms Meller joined the Company in August 2004. Prior to her current position, Ms Meller was the Legal Director & Secretary between September 2011 and June 2016, and the Legal and European Business Director between July 2016 and February 2021.

Ms Meller is responsible for overseeing the Company's legal, insurance, governance and risk management, environmental and social responsibility, and central procurement and supply chain functions. She is also responsible for leading the Company's assurance function with the aim of providing a strengthened second line of defence across key risk areas of the Company.

Before joining the Company, Ms Meller was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom.

Ms Meller is a vice chairman of the Legal Committee of The Hong Kong General Chamber of Commerce, and a member of the Listing Committee of The Stock Exchange of Hong Kong Limited. She was formerly a member of the Standing Committee on Company Law Reform.

Ms Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is a representative of the China/Hong Kong Division on the Council of the international Chartered Governance Institute and a former President of The Hong Kong Chartered Governance Institute.

David Tang Chi-fai*

Age 58

Property and International Business Director
(since 22 February 2021)

Mr Tang joined the Company in August 2004. Prior to his current position, Mr Tang was appointed as the Property Director in October 2011 and the Property and Australian Business Director in October 2020, and before that he had held various senior management positions in the then Legal and Procurement Division, the China and International Business Division, and the Property Division.

Mr Tang is responsible for all of the property development projects, asset and leasing management of investment properties (including shopping malls and offices), and property management business of the Company in Hong Kong, as well as overseeing the Company's international businesses. He is also accountable for the business results of the Hong Kong property and international businesses portfolios.

Before joining the Company, Mr Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had close to 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc.

Mr Tang is an adjunct professor in the Department of Real Estate and Construction at The University of Hong Kong. He is also a former co-opted member of the Public Private Partnership Projects Committee under the Board of the West Kowloon Cultural District Authority and a former non-executive director of the Urban Renewal Authority of the HKSAR Government.

Mr Tang is a Chartered Surveyor.

Sammy Wong Kwan-wai*

Age 49

Mainland China Business Director (since 1 January 2023)

Mr Wong joined the Company in 1995 as Operating Management Trainee and has since then advanced his career in the Company having taken on different positions. Prior to his current position, Mr Wong was appointed as General Manager-Shenzhen Line 4 in July 2017, Chief of Operating in January 2020 and Chief of Operating and Metro Segment in July 2021.

Mr Wong is responsible for overseeing the Company's business portfolios in Mainland China and is accountable for their business performance.

Mr Wong is a fellow member of the China Hong Kong Railway Institution, a member of The Chartered Institute of Logistics and Transport in Hong Kong and a member of the International Association of Public Transport (UITP) Metro Operations Subcommittee.

Jeny Yeung Mei-chun*

Age 58

Hong Kong Transport Services Director (since 1 July 2021)

Ms Yeung joined the Company in November 1999. Prior to her current position, Ms Yeung was the Commercial Director between September 2011 and June 2021. She is currently the Chairman of Ngong Ping 360 Limited, and the Non-Executive Chairman of Octopus Holdings Limited and of two members of the Octopus Holdings Limited group.

Ms Yeung heads the Hong Kong Transport Services Business and has overall responsibility for the Company's railway transport operations and its commercial businesses in Hong Kong. These include the metro network, the Airport Express and the High Speed Rail.

Before joining the Company, Ms Yeung held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

Ms Yeung is a member of the Advisory Committee on Enhancing Employment of People with Disabilities, a non-official member of both the Immigration Department Users' Committee and the Commercial Properties Committee of The Hong Kong Housing Authority, and an independent non-executive director of Hongkong International Theme Parks Limited. She was an independent non-executive director of Mox Bank Limited, a director of Hong Kong Cyberport Management Company Limited and a member of the Cyberport Advisory Panel, and a member of the Hong Kong Tourism Board.

Ms Yeung is a Fellow of both The Chartered Institute of Marketing and Hong Kong Institute of Marketing and a Chartered Fellow of The Chartered Institute of Logistics and Transport in Hong Kong.

* *Also a director of the Company's subsidiary(ies).*

CHANGES IN INFORMATION OF DIRECTORS

Changes in information of Directors during 2022 and up to the date of this Report which are required to be disclosed pursuant to the Listing Rules are set out below:

(i) Changes in Biographical Details

Name	Change(s)	Nature and Effective Date of Change(s)
Dr Rex Auyeung Pak-kuen	Independent Police Complaints Council (Hong Kong) • Observer of Observers Scheme	Cessation (1 April 2022)
	Gold Bauhinia Star medal awarded by the Chief Executive of the Hong Kong Special Administrative Region (the "HKSAR")	Award (2022)
Dr Jacob Kam Chak-pui	Employers' Federation of Hong Kong • Member of the General Committee	Appointment (May 2022)
	The Chartered Institute of Logistics and Transport in Hong Kong • Vice President	Cessation (1 October 2022)
	The Hong Kong Management Association • Fellow	Grant (22 November 2022)
Andrew Clifford Winawer Brandler	CLP Holdings Limited • Vice Chairman of the board	Appointment (1 January 2023)
Dr Bunny Chan Chung-bun	Speedy Global Holdings Limited • Independent Non-executive Director	Cessation (31 January 2023)
Dr Pamela Chan Wong Shui	Travel Industry Council of Hong Kong • Independent Director	Cessation (31 August 2022)
Dr Dorothy Chan Yuen Tak-fai	West Kowloon Cultural District Authority (Hong Kong) • Member of the Commercial Letting Panel under the board	Appointment (1 April 2022)
	Sustainable Agricultural Development Fund Advisory Committee (Hong Kong) • Chairperson	Cessation (30 November 2022)
Walter Chan Kar-lok	Pensions Appeal Panel under the Civil Service Bureau (Hong Kong) • Convenor-cum-Member	Cessation (8 April 2022)
	Messrs. Rowland Chow, Chan & Co., Solicitors • Consultant	Cessation (1 January 2023)
Dr Anthony Chow Wing-kin (Retired on 25 May 2022)	The Council of The Hong Kong Academy for Performing Arts • Deputy Chairman	Cessation (1 January 2022)
Christopher Hui Ching-yu	Gold Bauhinia Star medal awarded by the Chief Executive of the HKSAR	Award (2022)
	Hong Kong Investment Corporation Limited • Director	Appointment (15 February 2023)
Lam Sai-hung	Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council • Vice-Chairperson	Appointment (7 February 2023)
Sunny Lee Wai-kwong	Bronze Bauhinia Star medal awarded by the Chief Executive of the HKSAR	Award (2022)
	BOC Hong Kong (Holdings) Limited • Independent Non-executive Director	Appointment (14 September 2022)
	MTR Academy (HK) Company Limited • Director	Appointment (18 October 2022)
	Committee on Innovation, Technology and Re-industrialisation (Hong Kong) • Ex-officio member	Cessation (21 December 2022)
	Committee on Innovation, Technology and Industry Development (Hong Kong) • Ex-officio member	Appointment (3 March 2023)

(i) Changes in Biographical Details *(continued)*

Name	Change(s)	Nature and Effective Date of Change(s)
Jimmy Ng Wing-ka	The University of Hong Kong • Council Member	Appointment (8 April 2022)
	The Hong Kong Mortgage Corporation Limited • Non-executive Director	Appointment (27 June 2022)
	Chinese People's Political Consultative Conference of Chongqing City • Member	Cessation (31 December 2022)
	Chinese People's Political Consultative Conference of Shaanxi Province • Member	Appointment (1 January 2023)
	The National People's Congress of the People's Republic of China • Member of the Hong Kong delegation	Appointment (5 March 2023)
Carlson Tong	University Grants Committee (Hong Kong) • Chairman	Cessation (1 January 2023)
	Human Resources Planning Commission (Hong Kong) • Member	Cessation (1 January 2023)
	Standard Chartered Bank • Member of the Court	Cessation (1 January 2023)
	Hong Kong Investment Corporation Limited • Director	Appointment (15 February 2023)
Adrian Wong Koon-man	Unsolicited Electronic Messages (Enforcement Notices) Appeal Board (Hong Kong) • Member	Appointment (December 2022)
	Standing Commission on Civil Service Salaries and Conditions of Service (Hong Kong) • Member	Appointment (1 January 2023)
Adi Lau Tin-shing (Retired on 1 January 2023)	Hong Kong Trade Development Council • Member of the Infrastructure Development Advisory Committee	Appointment (1 April 2022)
Margaret Cheng Wai-ching	The Standing Committee on Disciplined Services Salaries and Conditions of Service (Hong Kong) • Member • Chairman of the Police Sub-Committee	Cessation (1 January 2022) Cessation (1 January 2022)
	Hong Kong Institute of Human Resource Management • President • Immediate Past President	Cessation (22 June 2022) Appointment (22 June 2022)
	The Chinese University of Hong Kong • Chairman of the Career Development Board	Appointment (1 August 2022)
	Civil Service Training Advisory Board (Hong Kong) • Non-official Member	Appointment (1 November 2022)
	Hospital Authority (Hong Kong) • Chairman of the Human Resources Committee	Appointment (1 December 2022)
	Labour Department (Hong Kong) • Member of the Labour Advisory Board Committee on Employment Services	Cessation (1 January 2023)
Linda Choy Siu-min	Lantau Development Advisory Committee (Hong Kong) • Non-official Member	Appointment (1 February 2022)
Herbert Hui Leung-wah	The Standing Committee on Disciplined Services Salaries and Conditions of Service (Hong Kong) • Member • Chairman of the ICAC Sub-Committee	Appointment (1 January 2022) Appointment (1 January 2023)
	HKBU Chinese Medicine Hospital Company Limited • Chairman of the Human Resources Committee	Appointment (14 April 2022)
	Chinese Medicine Development Fund supervised by the Health Bureau (Hong Kong) • Non-official member of the Advisory Committee	Appointment (1 March 2023)

Name	Change(s)	Nature and Effective Date of Change(s)
Dr Tony Lee Kar-yun	City University of Hong Kong • Honorary Advisory Board Member of the Theme-based Research Scheme Project on "Safety, Reliability, and Disruption Management of High Speed Rail and Metro Systems"	Cessation (1 January 2022)
	National Rail Transit Electrification and Automation Engineering Technology Research Center (Hong Kong Branch) • Member of the Technical Committee	Appointment (January 2022)
Gillian Elizabeth Meller	The Chartered Governance Institute • China/Hong Kong Division representative on the Council	Appointment (1 January 2022)
	The Hong Kong Chartered Governance Institute • President	Cessation (1 January 2022)
	The Stock Exchange of Hong Kong Limited • Member of the Listing Committee	Appointment (8 July 2022)
	The Standing Committee on Company Law Reform (Hong Kong) • Member	Cessation (1 February 2023)
David Tang Chi-fai	West Kowloon Cultural District Authority (Hong Kong) • Co-opted Member of the Public Private Partnership Projects Committee under the board	Cessation (1 January 2022)
Jeny Yeung Mei-chun	Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme (Hong Kong) • Member	Cessation (1 July 2022)
	Mox Bank Limited • Independent Non-executive Director	Cessation (1 October 2022)
	Hong Kong Institute of Marketing • Fellow	Conferment (7 December 2022)
	Hong Kong Cyberport Management Company Limited • Member of the Cyberport Advisory Panel	Cessation (1 January 2023)
	Octopus Holdings Limited and two members of the Octopus Holdings Limited group • Non-Executive Chairman	Appointment (1 January 2023)

(ii) Changes in Directors' Remuneration

For details of the Directors' remuneration received during the year, please refer to pages 232 to 235 of the Annual Report.

KEY CORPORATE MANAGEMENT

Jacob Kam Chak-pui
Chief Executive Officer

Adi Lau Tin-shing
Managing Director – Mainland China Business and Global Operations Standards (up to 31 December 2022)

Capital Works

Roger Bayliss
Capital Works Director (up to 31 July 2022)

Carl Devlin
Capital Works Director (w.e.f. 1 August 2022)

Eva Kong Nai-kui
Capital Works Chief of Staff

Clifford Chow Lung-hung
Deputy Project Manager – NSL Signalling

Robin Wong Koon-sang
General Manager – Capital Works Technical (up to 31 January 2023)

Scott Mackenzie
General Manager – Commercial Management

Tim Leung Chi-tim
General Manager – E&M Construction

Neil Smith
General Manager – Lantau (Projects)

Barry Sum Pang-tuen
General Manager – New Territories (Projects)

Peter Leung Man-fat
General Manager – Operations Projects

Lyndon Adolphus
General Manager – Projects Management Office

James Chow So-hung
General Manager – Special Duties (up to 28 February 2023)

Andrew Mead
Head of Architecture

Thomas Lau Ming-yu
Head of Civil Engineering (Capital Works)

Ken Lee Kwong-wah
Head of Design

Wong Sha
Head of E&M Engineering (Capital Works)

Bernard Chui Wan-tak
Head of Programming

Raymond Au Koon-shan
Principal Projects Commercial Manager

Michael Mellor
Principal Projects Commercial Manager – Lantau

Dominic Law Tik-ko
Project Manager – NOL

Kevin Man Kwoon-yin
Project Manager – Operations Projects – Civil

Bruce Chang Chi-tat
Project Manager – Operations Projects – E&M

Adrian Stearn
Project Manager – OYB & ARO

Chan Chun-sing
Project Manager – Rolling Stock & Signalling

Neil Ng Wai-hang
Project Manager – SCL Civil

Walter Lam Wai-tak
Project Manager – TME & HSK

Lesly Leung Po-po
Project Manager – TUE

Corporate Affairs & Branding

Linda Choy Siu-min
Corporate Affairs & Branding Director

Karen Woo Kit-sum
General Manager – Branding & Communications

Joey Chan Ka-ching
General Manager – Corporate Communications

Lam Chan Lam-sang
General Manager – Corporate Relations

Corporate Strategy

Michael Chan Ting-bond
General Manager – Corporate Strategy

Digitalisation and Innovation

Leo Ng Lup-nung
Chief Digital Officer

Wan Wai-yin
Chief Information Officer

Daniel Wong
General Manager – Global Innovation

Finance

Herbert Hui Leung-wah
Finance Director

Wilson Ma Wai-yuen
ERP Project Management Office Lead (up to 15 February 2023)

Sammy Jim Kwok-wah
General Manager – Corporate Finance

Dennis Tam Lup-kwan
General Manager – Financial Control (up to 10 April 2023)

Candy Ng Chui-lok
Head of Investor Relations & Retirement Benefits

David Pang Hoi-hing
Treasurer

Hong Kong Property & International Business

David Tang Chi-fai
Property & International Business Director

Paul Chow Yuen-ming
General Manager – Property & International Business Planning & Governance

Australia

Raymond Yuen Lap-hang
Deputy Director – Australian Business

Raymond O'Flaherty
Chief Executive Officer – Metro Trains Melbourne

Daniel Williams
Chief Executive Officer – Metro Trains Sydney

David Yam Pak-nin
General Manager – Business Development

Tommy Lam Choi-fung
Head of Projects Engineering – Australian Business

Hong Kong Property

Monita Ko Suet-ying
Deputy General Manager – Property Development

Lawrence Chung Kwok-leung
Deputy General Manager – Property Project

Debbie Chan Yuen-ping
General Manager – Investment Property (Team 1)

Kenneth Lung Tze-ho
General Manager – Investment Property (Team 2)

Melissa Pang Mee-yuk
General Manager – Property Development

Kenny Chow Chun-ling
General Manager – Property Management

Wilfred Yeung Sze-wai
General Manager – Property Project

Sharon Liu Chung-gay
General Manager – Town Planning

Sweden

Henrik Dahlin
Chief Executive Officer – MTR Nordic

Filip Johansson
Chief Executive Officer – MTR Express

Erika Ahlqvist
Chief Executive Officer – MTR Facility Management

Joakim Sundh
Chief Executive Officer – MTR Pendeltågen

Anders Gustafsson
Chief Executive Officer – MTR Tech

Caroline Astrand
Chief Executive Officer – MTR Tunnelbanan

United Kingdom

Steve Murphy
Chief Executive Officer – MTR UK

Nigel Holness
Managing Director – MTR Elizabeth Line (up to 5 February 2023)

Mike Bagshaw
Managing Director – MTR Elizabeth Line (w.e.f. 6 February 2023)

Hong Kong Transport Services

Jeny Yeung Mei-chun
Hong Kong Transport Services Director

Tony Lee Kar-yun
Operations Director

Paul Wong Kah-ming
Chief of Airport Segment (w.e.f. 1 January 2023)

Cheung Chi-keung
Chief of Cross Boundary Segment

Cheris Lee Yuen-ling
Chief of Operating & Metro Segment (w.e.f. 1 January 2023)

Nelson Ng Wai-hung
Chief of Operations Engineering

Chan Hing-keung
Chief of Operations Engineering Service & Innovation

Gordon Lam Bik-shun
Chief Signal Engineer (Operations)

Joseph Sin Chi-man
Chief Signalling Design Manager

Chan Ho-wing
Deputy General Manager – Operations Innovation Hub

Felix Chan So-Kwan
Deputy General Manager – Projects Planning & Development (Operations)

Mark Chan Tat-tai
Deputy General Manager – Projects Planning & Development (Operations)

Simon Tang Siu-cheung
Deputy General Manager – Technical & Asset Engineering (w.e.f. 1 February 2023)

Margaret Chu Fung-kuen
General Manager – Commercial

Aiken Tam
General Manager – Engineering Maintenance (Gateway Segment)

Frankie Ng Sze-ho
General Manager – Engineering Maintenance (Operating & Metro Segment)

Winson Tse Fuk-sum
General Manager – Infrastructure Maintenance

Annie Leung Ching-man
General Manager – Marketing & Customer Experience

Diane Chiu Man
General Manager – Marketing & Revenue Management

Siman Tang
General Manager – Operations Performance & Services Management

Zoe Tse Yu-yuk
General Manager – Operations Safety & Quality

Allen Ding Ka-chun
General Manager – Projects Planning & Development (Operations)

Rick Wong Hoi-wah
General Manager – PWay Asset Replacement & Operations Interfacing Works

Lee Kim-hung
General Manager – Rolling Stock Maintenance

Weller Chan Kwok-wai
General Manager – Works Management

Bess Ng Suet-fa
Head of Line Group Management – EAL & IC

David Chan Chi-hung
Head of Line Group Management – TML, LR & Bus

Ben Lui Gon-yee
Head of Line Group Management – Urban Lines

Rico Wong Kong-kit
Head of Traffic Operations

Human Resources & Administration

Margaret Cheng Wai-ching
Human Resources Director

Albert Man Tat-shing
General Manager – Corporate Security

Doreen Siu Wai-man
General Manager – Human Resources

Denise Ng Kee Wing-man
General Manager – Learning & Human Resources Transformation

Sylvia Choi Yuk-ling
General Manager – Performance & Reward

Vinnie Chi Man-yan
General Manager – Talent Management & Organisation Development

Internal Audit

Linda Chan
Head of Internal Audit

Legal & Governance

Gillian Meller
Legal & Governance Director

Brian Downie
Deputy Director – Legal, Procurement & Supply Chain

Stephen Hamill
Chief Engineer

Michael Parker
General Manager – Assurance Management

Roger Lee Chak-man
General Manager – Corporate Safety

Olivia Wong Ka-ying
General Manager – Environmental & Social Responsibility

Cecilia Cheng Yuet-fong
General Manager – Governance & Company Secretarial

Nicholas Zhang Xiaolong
General Manager – Procurement & Supply Chain

Katherine Kendall
Head of Corporate Quality & Compliance

Doreen Kong Yuk-foon
Head of Legal (Property)

Robert Littlefair
Head of Programme and Portfolio Management

Mainland China & Macau Businesses

Sammy Wong Kwan-wai
Mainland China Business Director (w.e.f. 1 January 2023)

Macau

Jeff Chan Yue-chiu
General Manager – Macau Light Rapid Transit

Ken Wong Kin-wai
General Manager – Macau (Projects)

Mainland China

Kyle Lau Ki-ming
Chief of Engineering (Beijing)

Tse Che-ming
Deputy General Manager – Engineering (Hangzhou)

Kevin Kiang Yee-wing
Deputy General Manager – Operations (Beijing)

George Mui Wai-ming
Deputy General Manager – Operations (Hangzhou)

Charles Lau Kam-keung
Deputy General Manager – Projects (Beijing)

Jia Jun
General Manager – Business Development (Mainland China)

Frank Liu Zhui-ming
General Manager – Hangzhou

Wilson Shao Shing-ming
General Manager – Jing-Jin-Ji

Oscar Ho Ka-wa
General Manager – Mainland China Property

Terry Wong Wing-kin
General Manager – Shenzhen

Justin Man Wing-fai
General Manager – Shenzhen L13

MTR Academy

Margaret Cheng Wai-ching
President of MTR Academy

Ngong Ping 360

Andy Lau Wai-ming
Managing Director of Ngong Ping 360

Octopus Holdings Limited

Angus Lee Chun-ming#
Chief Executive Officer – Octopus Holdings Limited

\# *Mr. Angus Lee is seconded to Octopus Holdings Limited and Octopus Cards Limited to take up the role of Chief Executive Officer.*

REPORT OF THE MEMBERS OF THE BOARD

The Members of the Board have pleasure in submitting their Report and the audited Consolidated Financial Statements for the financial year ended 31 December 2022.

PRINCIPAL ACTIVITIES OF THE GROUP

The Group is principally engaged in the following core businesses: railway design, construction, operation, maintenance and investment in Hong Kong, Macau, Mainland China and a number of overseas cities; project management in relation to railway and property development businesses in Hong Kong and Mainland China; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and Mainland China; investment in Octopus Holdings Limited; provision of railway management, engineering and technology training; and investment in relevant new technologies.

The principal businesses of the Company's principal subsidiaries, associates and joint venture as at 31 December 2022 are set out in notes 26 and 27 to the Consolidated Financial Statements.

BUSINESS REVIEW

The Company has always been committed to providing comprehensive reviews of the Group's businesses and performance in its Annual Reports. A summary of the relevant sections in the Company's Annual Report 2022 covering the required disclosures under the Companies Ordinance is set out below for ease of reference.

Required Disclosures	Relevant Sections
(1) A fair review of the Group's businesses and a discussion and an analysis of the Group's performance during the financial year 2022	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 71) • Financial Review (pages 84 to 95)
(2) Particulars of important events affecting the Group that have occurred since the end of the financial year 2022	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 71)
(3) Description of the significant risks and uncertainties facing the Group	• CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 71) • Risk Management (pages 138 to 142) • Financial Risks – note 30B to the Consolidated Financial Statements (pages 258 to 260)
(4) Outlook for the Group's businesses	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 71)
(5) Details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group	• Corporate Governance Report (pages 100 to 134)
(6) Description of the Group's relationships with its key stakeholders	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 71) • Environmental & Social Responsibility (pages 72 to 79) • Human Resources (pages 80 to 82) • Investor Relations (pages 98 to 99) • Sustainability Report 2022 (www.mtr.com.hk)
(7) Description of the Group's environmental policies and performance	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Environmental & Social Responsibility (pages 72 to 79) • Sustainability Report 2022 (www.mtr.com.hk)

DIVIDENDS

The Board has recommended to pay a final dividend of HK$0.89 per share (2021: HK$1.02 per share) 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 ("AGM"), the proposed 2022 final dividend, with a scrip dividend option, is expected to be distributed on 18 July 2023 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 5 June 2023.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial position of the Group as at 31 December 2022 and the Group's consolidated financial performance and consolidated cash flows for the year are set out in the Consolidated Financial Statements on pages 207 to 294.

TEN-YEAR STATISTICS

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years is set out on pages 96 to 97.

DIRECTORS

Members of the Board (including their Alternate Director(s)) and the Executive Directorate as at the date of this Report are stated below:

Members of the Board

- Dr Rex Auyeung Pak-kuen (Chairman)
- Dr Jacob Kam Chak-pui (CEO)
- Andrew Clifford Winawer Brandler
- Dr Bunny Chan Chung-bun
- Walter Chan Kar-lok
- Dr Pamela Chan Wong Shui
- Dr Dorothy Chan Yuen Tak-fai
- Cheng Yan-kee
- Hui Siu-wai
- Sunny Lee Wai-kwong
- Dr Rose Lee Wai-mun
- Jimmy Ng Wing-ka
- Carlson Tong
- Adrian Wong Koon-man
- Johannes Zhou Yuan
- Christopher Hui Ching-yu
  (Secretary for Financial Services and the Treasury)

  Alternate Directors:
  - Joseph Chan Ho-lim
  - Cathy Chu Man-ling
  - Maurice Loo Kam-wah
- Secretary for Transport and Logistics
  (Lam Sai-hung)

  Alternate Directors:
  - Under Secretary for Transport and Logistics
    (Liu Chun-san)
  - Permanent Secretary for Transport and Logistics
    (Mable Chan)
  - Deputy Secretary for Transport and Logistics 1
    (Amy Wong Pui-man [N1])
  - Deputy Secretary for Transport and Logistics 2
    (Ida Lee Bik-sai [N2])
- Permanent Secretary for Development (Works)
  (Ricky Lau Chun-kit)

  Alternate Director:
  - Deputy Secretary for Development (Works) 3
    (Francis Chau Siu-hei)
- Commissioner for Transport
  (Rosanna Law Shuk-pui)

  Alternate Director:
  - Deputy Commissioner for Transport/
    Transport Services and Management
    (Macella Lee Sui-chun)

N1: Change of holder of the post from Sharon Yip Lee Hang-yee to Amy Wong Pui-man with effect from 30 January 2023.
N2: Change of holder of the post from Amy Wong Pui-man to Ida Lee Bik-sai with effect from 30 January 2023.

Members of the Executive Directorate

- Dr Jacob Kam Chak-pui (CEO)
- Margaret Cheng Wai-ching (Human Resources Director)
- Linda Choy Siu-min (Corporate Affairs and Branding Director)
- Carl Michael Devlin (Capital Works Director)
- Herbert Hui Leung-wah (Finance Director)
- Dr Tony Lee Kar-yun (Operations Director)
- Gillian Elizabeth Meller (Legal and Governance Director)
- David Tang Chi-fai (Property and International Business Director)
- Sammy Wong Kwan-wai (Mainland China Business Director)
- Jeny Yeung Mei-chun (Hong Kong Transport Services Director)

The biographies of each Member of the Board and the Executive Directorate as at the date of this Report are set out on pages 150 to 162.

In addition, resolutions for electing Ms Sandy Wong Hang-yee and Professor Anna Wong Wai-kwan as new Directors will be proposed at the 2023 AGM. Please refer to the Company's circular containing the Notice of the 2023 AGM sent together with this Report.

Members of the Board, Alternate Directors and Members of the Executive Directorate who were directors/alternate directors during the course of 2022 but have since ceased their positions with the Company are stated below:

- Deputy Secretary for Development (Works) 2 (Mak Shing-cheung) (until 2 March 2022)
- Dr Anthony Chow Wing-kin (retired on 25 May 2022)
- Dr Eddy Fong Ching (retired on 25 May 2022)
- Benjamin Tang Kwok-bun (retired on 25 May 2022)
- Former Secretary for Transport and Housing (Frank Chan Fan) (until 30 June 2022)
- Former Under Secretary for Transport and Housing (Dr Raymond So Wai-man) (until 30 June 2022)
- Former Permanent Secretary for Transport and Housing (Transport) (Mable Chan) (until 30 June 2022)
- Former Deputy Secretary for Transport and Housing (Transport) 1 (Sharon Yip Lee Hang-yee) (until 30 June 2022)
- Former Deputy Secretary for Transport and Housing (Transport) 2 (Amy Wong Pui-man) (until 30 June 2022)
- Roger Francis Bayliss (retired on 1 August 2022)
- Adi Lau Tin-shing (retired on 1 January 2023)

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 200.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for, in respect of Mr Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury), the former Secretary for Transport and Housing (Mr Frank Chan Fan) (until 30 June 2022), Secretary for Transport and Logistics (Mr Lam Sai-hung) (since 1 July 2022), Permanent Secretary for Development (Works) (Mr Ricky Lau Chun-kit), and Commissioner for Transport (Miss Rosanna Law Shuk-pui) and their respective Alternate Director(s), all of whom were officials of Government, those connected transactions and continuing connected transactions between the Company and Government (and/or its associates) which are described on pages 176 to 198, there was no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiary undertakings was a party and in which a Member of the Board, an Alternate Director or a Member of the Executive Directorate or an entity connected with him/her had a material interest (whether direct or indirect), which was entered into during the year or subsisted at any time during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2022, the interests or short positions of the Members of the Board, Alternate Director(s) and Members of the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Members of the Board/ Alternate Director/ Members of the Executive Directorate	No. of Ordinary Shares held		No. of award shares#		Percentage of aggregate interests to total no. of voting shares in issue∆
	Personal interests*	Family interests†	Personal interests*	Total interests	
Dr Jacob Kam Chak-pui	648,187	–	530,435	1,178,622	0.01900
Dr Pamela Chan Wong Shui	9,072	1,675 (Note)	–	10,747	0.00017
Cheng Yan-kee	–	2,000 (Note)	–	2,000	0.00003
Dr Rose Lee Wai-mun	3,350	–	–	3,350	0.00005
Adrian Wong Koon-man	–	558 (Note)	–	558	0.00001
Maurice Loo Kam-wah	588	–	–	588	0.00001
Adi Lau Tin-shing	305,041	–	47,850	352,891	0.00569
Margaret Cheng Wai-ching	212,531	–	109,802	322,333	0.00520
Linda Choy Siu-min	4,500	–	89,050	93,550	0.00151
Carl Michael Devlin	–	–	15,000	15,000	0.00024
Herbert Hui Leung-wah	133,405	2,233 (Note)	105,784	241,422	0.00389
Dr Tony Lee Kar-yun	126,943	–	96,102	223,045	0.00360
Gillian Elizabeth Meller	199,191	–	100,950	300,141	0.00484
David Tang Chi-fai	293,545	–	115,767	409,312	0.00660
Jeny Yeung Mei-chun	760,879	–	116,201	877,080	0.01414

Note: As at 31 December 2022, these shares were held by the spouse of relevant Members of the Board or a Member of the Executive Directorate of the Company.

\# *Details of the award shares are set out in the section headed "Executive Share Incentive Scheme" on pages 171 to 173*

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

∆ *The Company's total number of voting shares in issue as at 31 December 2022 was 6,202,060,784*

Save as disclosed above and in the section headed "Executive Share Incentive Scheme":

A as at 31 December 2022, no Member of the Board or Alternate Director or Member of the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2022, no Member of the Board or Alternate Director or Member of the Executive Directorate of the Company nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 31 December 2022 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares held	Percentage of Ordinary Shares to total no. of voting shares in issue[Δ]
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,634,173,932	74.72%

Δ *The Company's total number of voting shares in issue as at 31 December 2022 was 6,202,060,784*

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2022, approximately 0.15% of the Ordinary Shares in issue (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

OTHER PERSONS' INTERESTS

Pursuant to section 337 of the SFO, the Company has maintained a register recording the shareholding information provided by persons in response to the Company's requests pursuant to section 329 of the SFO.

Save as disclosed above and in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2022, the Company has not been notified of any other persons who had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

EQUITY-LINKED AGREEMENT

No equity-linked agreement was entered into by the Company during the year ended 31 December 2022 or subsisted at the end of the year.

EXECUTIVE SHARE INCENTIVE SCHEME

The Company adopted the Executive Share Incentive Scheme with effect from 1 January 2015 ("Effective Date") and it will remain in force until 31 December 2024. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interests with the long-term success of the Company and to drive the achievement of the strategic objectives of the Company. Under the terms of the Executive Share Incentive Scheme, the participants can be any employees and any directors of the Company or any of its subsidiaries (excluding non-executive members of the Board but including Members of the Executive Directorate).

The maximum number of award shares that may at any time be the subject of an outstanding award granted under the Executive Share Incentive Scheme shall not exceed 2.5% (i.e. 145,663,358 Ordinary Shares) of the number of issued Ordinary Shares as at the Effective Date (i.e. 5,826,534,347 Ordinary Shares) and the maximum number of award shares that may be granted to a single eligible employee in the 12-month period up to the relevant award date shall be 0.03% of the number of issued Ordinary Shares on the relevant award date.

The number of award shares that are the subject of outstanding awards granted under the Executive Share Incentive Scheme is 24,150,678 Ordinary Shares up to the date of this Report. Therefore, the total number of award shares available under the Executive Share Incentive Scheme that may be granted is 121,512,680 Ordinary Shares, representing approximately 1.96% of the Company's total number of issued shares as at the date of this Report.

EXECUTIVE SHARE INCENTIVE SCHEME *(continued)*

Pursuant to the terms of the Executive Share Incentive Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the award shares. Save for the above, the grantee is not required to pay any price for the shares purchased by the Trustee from the open market pursuant to the terms of the Executive Share Incentive Scheme. Any offers of award shares made under the Executive Share Incentive Scheme will specify the date by which the offer of the award shares must be accepted (being a date no more than 30 days (inclusive) from the date on which the offer is made).

Movements in the award shares under the Executive Share Incentive Scheme during the year ended 31 December 2022 are set out below:

		Types of award shares granted (Note 1)						
Members of the Executive Directorate and eligible employees	Date of award	Restricted shares (Note 2)	Performance shares (Note 3)	Award shares outstanding as at 1 January 2022	Award shares vested during the year	Award shares lapsed and/or forfeited during the year	Award shares outstanding as at 31 December 2022	Weighted average closing price of shares immediately before the date(s) on which the award shares were vested (HK$)
Dr Jacob Kam Chak-pui	1/4/2019	120,000	–	120,000	120,000	–	–	42.45
	8/4/2019	47,400	91,750	15,800	15,800	–	–	42.35
	8/4/2020	89,300	–	59,534	29,766	–	29,768	42.35
	8/4/2021	52,750	199,800	252,550	17,583	–	234,967	42.35
	1/4/2022 (Note 9)	132,000	–	–	–	–	132,000	–
	8/4/2022 (Note 9)	133,700	–	–	–	–	133,700	–
Adi Lau Tin-shing (Note 4)	8/4/2019	16,250	–	5,418	5,418	–	–	42.35
	8/4/2020	39,100	–	26,067	26,067	–	–	41.85
	8/4/2021	19,700	47,850	67,550	19,700	–	47,850	41.68
	8/4/2022 (Note 9)	43,000	–	–	43,000	–	–	41.35
Roger Francis Bayliss (Note 5)	8/4/2020	30,250	–	20,167	20,167	–	–	41.92
	8/4/2021	15,050	47,850	62,900	15,050	–	47,850	41.78
	8/4/2022 (Note 9)	35,400	–	–	35,400	–	–	41.50
Margaret Cheng Wai-ching	8/4/2019	16,550	–	5,518	5,518	–	–	42.35
	8/4/2020	32,450	–	21,634	10,816	–	10,818	42.35
	8/4/2021	17,450	47,850	65,300	5,816	–	59,484	42.35
	8/4/2022 (Note 9)	39,500	–	–	–	–	39,500	–
Linda Choy Siu-min	8/4/2021	13,500	47,850	61,350	4,500	–	56,850	42.35
	8/4/2022 (Note 9)	32,200	–	–	–	–	32,200	–
Carl Michael Devlin (Note 6)	8/4/2022 (Note 9)	7,700	7,300	–	–	–	15,000	–
Herbert Hui Leung-wah	8/4/2019	13,800	–	4,600	4,600	–	–	42.35
	8/4/2020	29,050	–	19,367	9,683	–	9,684	42.35
	8/4/2021	15,600	47,850	63,450	5,200	–	58,250	42.35
	8/4/2022 (Note 9)	37,850	–	–	–	–	37,850	–
Dr Tony Lee Kar-yun	8/4/2019	8,300	–	2,768	2,768	–	–	42.35
	8/4/2020	15,500	–	10,334	5,166	–	5,168	42.35
	8/4/2021	13,550	47,850	61,400	4,516	–	56,884	42.35
	8/4/2022 (Note 9)	34,050	–	–	–	–	34,050	–

EXECUTIVE SHARE INCENTIVE SCHEME *(continued)*

Members of the Executive Directorate and eligible employees	Date of award	Types of award shares granted (Note 1) Restricted shares (Note 2)	Types of award shares granted (Note 1) Performance shares (Note 3)	Award shares outstanding as at 1 January 2022	Award shares vested during the year	Award shares lapsed and/or forfeited during the year	Award shares outstanding as at 31 December 2022	Weighted average closing price of shares immediately before the date(s) on which the award shares were vested (HK$)
Gillian Elizabeth Meller	8/4/2019	13,400	–	4,468	4,468	–	–	42.35
	8/4/2020	27,000	–	18,000	9,000	–	9,000	42.35
	8/4/2021	14,250	47,850	62,100	4,750	–	57,350	42.35
	8/4/2022 (Note 9)	34,600	–	–	–	–	34,600	–
David Tang Chi-fai	8/4/2019	17,200	–	5,734	5,734	–	–	42.35
	8/4/2020	31,350	–	20,900	10,450	–	10,450	42.35
	8/4/2021	17,200	47,850	65,050	5,733	–	59,317	42.35
	8/4/2022 (Note 9)	46,000	–	–	–	–	46,000	–
Jeny Yeung Mei-chun	8/4/2019	16,350	–	5,450	5,450	–	–	42.35
	8/4/2020	32,650	–	21,767	10,883	–	10,884	42.35
	8/4/2021	17,200	47,850	65,050	5,733	–	59,317	42.35
	8/4/2022 (Note 9)	46,000	–	–	–	–	46,000	–
Five highest paid individuals (Note 11)	1/4/2019	120,000	–	120,000	120,000	–	–	42.45
	8/4/2019	97,200	91,750	32,402	32,402	–	–	42.35
	8/4/2020	222,650	–	148,435	97,333	–	51,102	42.13
	8/4/2021	121,900	391,200	513,100	63,799	–	449,301	42.01
	1/4/2022 (Note 9)	132,000	–	–	–	–	132,000	–
	8/4/2022 (Note 9)	304,100	–	–	78,400	–	225,700	41.42
Other eligible employees (Note 7)	8/4/2019	1,792,900	122,750	466,084	457,242	8,842	–	42.34
	8/4/2020	2,008,100	6,950	1,128,007	597,578	34,469	495,960	42.20
	8/4/2021	1,759,700	927,600	2,564,550	602,963	144,930	1,816,657	42.16
	8/4/2022 (Note 9)	2,017,250	233,400	–	46,000	67,250	2,137,400	39.15

Notes

1. *The award shares granted under the Executive Share Incentive Scheme are issued Ordinary Shares.*
2. *Restricted shares are awarded to selective eligible employees and vest over three years in equal tranches (unless otherwise determined by the Remuneration Committee of the Company).*
3. *Performance shares are awarded to eligible employees and generally vest over a three-year performance cycle, subject to review and approval by the Remuneration Committee of the Company from time to time.*
4. *Mr Adi Lau Tin-shing retired as Managing Director – Mainland China Business and Global Operations Standards and ceased to be a Member of the Executive Directorate of the Company, both with effect from 1 January 2023.*
5. *Mr Roger Francis Bayliss retired as Capital Works Director and ceased to be a Member of the Executive Directorate of the Company, both with effect from 1 August 2022.*
6. *Mr Carl Michael Devlin was appointed as Capital Works Director and became a Member of the Executive Directorate of the Company, both with effect from 1 August 2022.*
7. *Other eligible employees also include former employees of the Company.*
8. *Mr Sammy Wong Kwan-wai was appointed as the Mainland China Business Director and became a Member of the Executive Directorate of the Company, both with effect from 1 January 2023. As disclosed in the announcement of the Company dated 14 December 2022, Mr Wong has an interest in 29,783 Ordinary Shares and an interest in 25,600 Ordinary Shares awarded to him under the Company's Executive Share Incentive Scheme.*
9. *The closing price of the Ordinary Shares immediately before the date on which the award shares were granted on 1 April 2022 and 8 April 2022 was HK$42.35 and HK$42.05 respectively.*
10. *No award shares were cancelled during the year.*
11. *Among the five highest paid individuals for the financial year, five (2021: three) were Members of the Executive Directorate of the Company and details of the movements in their awarded shares under the Executive Share Incentive Scheme during the year ended 31 December 2022 are also shown in the table above.*
12. *Further details on the operation of the Executive Share Incentive Scheme including, but not limited to, the performance targets, the fair value of the share awards at the date of grant and the accounting standard and policy adopted are set out in the section headed "Long-Term Incentives" under the Remuneration Committee Report (pages 147 to 148) and notes 2(W)(iii), 11B and 44(ii) to the Consolidated Financial Statements in this Report.*

SHARES ISSUED

	No. of Ordinary Shares issued	Value (HK$)
As at 31 December 2021	6,193,462,514	N/A
Scrip shares issued in respect of 2021 final dividend	5,772,961	246 million
Scrip shares issued in respect of 2022 interim dividend	2,825,309	113 million
As at 31 December 2022	6,202,060,784	N/A

Details of the movements in share capital of the Company during the year are set out in note 41 to the Consolidated Financial Statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company redeemed its RMB1.15 billion and RMB200 million bonds at par on 18 March 2022 and 19 April 2022 respectively. The bonds were listed on the HKSE prior to 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 2022. 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 HKSE a total of 2,560,000 Ordinary Shares for a total consideration of approximately HK$109 million during the year ended 31 December 2022 (2021: HK$116 million).

PUBLIC FLOAT

The HKSE granted to the Company, at the time of its listing on the Main Board of the HKSE in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total number of issued shares of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Report as required by the Public Float Waiver.

MAJOR SUPPLIERS AND CUSTOMERS

Information in respect of the Group's major suppliers and major customers for the year ended 31 December 2022 is as follows:

	As a percentage of the Group's total purchases
Total value of purchases (not of a capital nature) attributable to the Group's five largest suppliers	20.98%

	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	45.46%
Total revenue attributable to the Group's largest customer	17.21%

As at 31 December 2022, no Member of the Board, Alternate Director or Member of the Executive Directorate or any of their respective close associates or any shareholder including the FSI, the substantial shareholder of the Company (which, to the knowledge of the Members of the Board, Alternate Directors or Members of the Executive Directorate, owned more than 5% of all the Company's voting shares in issue), had any beneficial interests in the Group's five largest customers.

DONATIONS

During the year, the Group donated and sponsored approximately HK$16.2 million (2021: approximately HK$10.7 million) to charitable and other organisations.

LOANS AND OTHER OBLIGATIONS

The total loans and other obligations of the Group as at 31 December 2022 amounted to HK$47,846 million (2021: HK$43,752 million), details of which are set out in note 35 to the Consolidated Financial Statements.

BONDS AND NOTES ISSUED

The Group issued notes with total face value amounting to HK$10,288 million equivalent during the year ended 31 December 2022 (2021: HK$5,225 million equivalent), details of which are set out in note 35C to the Consolidated Financial Statements. Such notes were issued in order to meet the Group's general corporate funding requirements, including financing of capital expenditure and refinancing of debts.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2022, the Group did not have any borrowing (2021: note outstanding of HK$500 million), which was subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate redemption of the note being demanded.

PROPERTIES

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 53 to 54.

CONNECTED TRANSACTIONS

During the year under review, the transactions described below were entered into with Government (which is a substantial shareholder of the Company as defined in the Listing Rules). Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements of Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

Land Agreements

A On 27 April 2022, the Company accepted an offer dated 16 March 2022 from Government to proceed with the proposed Pak Shing Kok Ventilation Building Property Development at Tseung Kwan O Town Lot No. 132 subject to payment of a land premium of HK$1,101,370,000 and on the terms and conditions of the relevant Conditions of Exchange No. 22980.

B On 9 August 2022, the Company accepted an offer dated 30 June 2022 from Government to proceed with the proposed Tung Chung Traction Substation Property Development at Tung Chung Town Lot No. 50 subject to payment of a land premium of HK$3,547,500,000 and on the terms and conditions of the relevant Conditions of Exchange No. 23007.

C On 23 September 2022, the Company accepted an offer dated 24 August 2022 from Government to proceed with the proposed land exchange where the Company surrendered Lot No. 143 in Demarcation District No. 346 and Portions of the Remaining Portion of Mass Transit Railway Lot No. 2 to Government and Government granted the in-situ Lot No. 145 in Demarcation District No. 346 for the proposed Oyster Bay Property Development and Lot No. 146 in Demarcation District No. 346 to the Company, subject to payment of a total land premium of HK$8,603,001,000 and on the terms and conditions of the respective Conditions of Exchange No. 23008 and Conditions of Exchange No. 23009.

CONTINUING CONNECTED TRANSACTIONS

During the year under review, the following transactions and arrangements described below involved the provision of goods or services carried out on an ongoing or recurring basis and are expected to extend over a period of time with Government and/or KCRC and the Airport Authority (the "AA").

As noted above under the section headed "Connected Transactions", Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of Government and they are also connected persons of the Company as defined in the Listing Rules.

Therefore, each of Government, KCRC and the AA is a "connected person" of the Company for the purposes of the Listing Rules and, during 2022, each transaction set out at sections I, II, III and IV below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with the Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit & Risk Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to C below of this section (together, the "Merger-related Continuing Connected Transactions") and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the then Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK$7.79 billion in respect of the Property Package Agreements (as described in paragraph C on page 178 and in paragraph F in the section headed "Additional Information in respect of the Rail Merger" below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C Property Package Agreements

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to the concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on pages 195 to 196).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

II Non Merger-related Continuing Connected Transactions

The following disclosures, in paragraphs A1 to D below of this section together with the Third XRL Agreement (as defined below) (together, the "Non Merger-related Continuing Connected Transactions"), are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the then Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the then Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;

- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the "Third SCL Agreement") was entered into on 29 May 2012 between the Company and the then Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of the project management cost is HK$7,893 million and will be paid by Government to the Company on a quarterly basis;

- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK$3,000 million per annum and a total in aggregate of HK$15,000 million;
- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK$4,000 million per annum and a total in aggregate of HK$15,000 million;
- the Company's total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and

- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link

The Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the then Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company's liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the Construction and Commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the then Secretary for Transport and Housing for and on behalf of Government (the "Second XRL Agreement").

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK$4,590 million (further details relating to the amendments to this provision are set out in the section headed "The Third Agreement in relation to the Express Rail Link"), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK$2,000 million annually and HK$10,000 million in total) (the "Maximum Payment Limits");
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works").

Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;

- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision are set out in the section headed "The Third Agreement in relation to the Express Rail Link"); and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government had agreed that the Company would proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company would be invited to undertake the operation of the Express Rail Link under the concession approach.

The Third Agreement in relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link project (the "Third XRL Agreement"). The Third XRL Agreement contains an integrated package of terms and provides that:

(i) Government will bear and finance the project cost up to HK$84.42 billion;

(ii) if the project cost exceeds HK$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;

(iii) the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share, in cash in each tranche);

(iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link, including an increase in the project management fee payable to the Company to HK$6.34 billion;

(v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the current cost overrun (if any); and

(vi) the Third XRL Agreement was subject to (a) the obtaining of approval of the Company's independent shareholders (which was obtained on 1 February 2016) and (b) the obtaining of approval of the Legislative Council for Government's additional funding obligations (which was obtained on 11 March 2016).

The first tranche of the special dividend of HK$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK$2.20 per share, was distributed on 12 July 2017.

Pursuant to the Third XRL Agreement, certain amendments have been made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations in relation to the Express Rail Link project).

C1 Maintenance Contract for the Automated People Mover System at the Hong Kong International Airport

On 2 July 2020, the Company entered into a contract with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport (the "System") for a seven-year period (the "Contract") effective from 6 January 2021. For the total amount received from AA in respect of the services provided under the Contract for the year ended 31 December 2022, please refer to Note 47J to the Notes to the Consolidated Financial Statements. Based on the foregoing and the services expected to be provided by the Company under the Contract, it is expected that the highest amount per year receivable from the AA will be around HK$150 million.

The Contract contains provisions relating to the operation and maintenance of the System as undertaken by the Company and, in particular, it includes the following provisions:

- the duration of the Contract shall be seven years from 6 January 2021 up to and including 5 January 2028;
- the performance of scheduled maintenance works and overhaul of the System;
- the monitoring of the System against any breakdown and the related repair services where necessary;
- the standards to which the Company must operate the System;
- the Company to carry out, in certain circumstances, upgrade work on the System; and
- operational training and corresponding qualifications to the AA's personnel.

C2 Subcontractor Warranty to the AA

On 18 May 2018, the Company provided a sub-contractor warranty to the AA as a result of obtaining a subcontract from Niigata Transys Co., Ltd. ("NTS") for the modification works of the existing System for a seven-year period, effective from 25 September 2017 (the "Subcontract"). It is expected that the highest amount per year receivable from NTS will be no more than HK$60 million.

The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System, which includes the following:

- modification of the existing System for its extension to the new Automated People Mover Interchange Station;
- provision of related electrical and mechanical systems, including power distribution system, telecommunication systems and maintenance equipment; and
- relocation of existing maintenance equipment to the new Automated People Mover depot.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the then Secretary for Transport and Housing for and on behalf of Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the then Secretary for Transport and Housing for and on behalf of Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The final payment certificate was issued on 28 June 2019.

The WIL Project Agreement includes provisions in relation to:

- payment by Government of HK$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public (which period was extended to no later than 30 June 2018 by a supplemental agreement between the Company and Government dated 23 December 2016, further extended for a period ended on or before 31 March 2019 by a second supplemental agreement between the Company and Government dated 29 June 2018, and further extended for a period ended on 30 June 2019 by a third supplemental agreement between the Company and Government dated 29 March 2019), payment by the Company to Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)

The following disclosures, in paragraphs A and B below of this section (together, the "Continuing Connected Transactions relating to the Operation of the High Speed Rail"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

A Amendment Operating Agreement

On 23 August 2018, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "AOA") to amend and supplement the Operating Agreement dated 9 August 2007 (as described in paragraph D of the section headed "Additional Information in respect of the Rail Merger" on pages 196 to 197), as amended (the "Existing Integrated Operating Agreement"), in order to prescribe the operational requirements that will apply to the High Speed Rail. The intent and effect of the AOA is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail.

The AOA is an "operating agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the AOA are as follows:

The terms of the AOA are based substantially on the terms of the Existing Integrated Operating Agreement. The AOA has taken effect on 23 September 2018 (the "Commercial Operation Date (High Speed Rail)") and will expire at the same time as the Supplemental Service Concession Agreement (the "SSCA") entered into between the Company and KCRC on 23 August 2018.

Certain principal terms of the AOA that are specific to the High Speed Rail include:

- obligations on the Company to maintain specific performance requirements in relation to train service delivery, ticket machine reliability, ticket-gate reliability and escalators and passenger lifts reliability;
- obligations on the Company to publish specific customer services pledges in relation to train service delivery, ticket machine reliability, ticket-gate reliability, escalators and passenger lifts reliability, temperature and ventilation levels, railway cleanliness (relating only to the Company's High Speed Rail trains) and passenger enquiry response time;
- obligations in relation to the carrying out of the maintenance of the Company's High Speed Rail trains outside Hong Kong;
- obligations on the Company to carry out design checks and tests to verify that the Mainland operator's High Speed Rail trains are compatible with the Company's infrastructure and can run on the High Speed Rail safely;
- establishing procedures with the Mainland operator for approving the Mainland operator's trains to run on the High Speed Rail safely and for informing Government of the modification of any such trains;
- developing and maintaining a training qualification system for drivers of High Speed Rail trains;
- facilitating the carrying out of inspections by the railway inspector, including liaising with the Mainland operator for this purpose, where necessary;
- security obligations in relation to maintaining the integrity and security of the boundaries of the Mainland Port Area and the Cross-Boundary Restricted Area; and
- mechanisms and Government approval procedures for setting fares for High Speed Rail train journeys, including that:
  - (i) prior to the Commercial Operation Date (High Speed Rail), the Company will seek prior written consent from Government before setting the fares for the various available High Speed Rail ticket types; and
  - (ii) thereafter, fares cannot be adjusted, introduced or withdrawn without the prior consent of Government.

B Supplemental Service Concession Agreement

On 23 August 2018, the Company and KCRC entered into the SSCA to supplement the Service Concession Agreement dated 9 August 2007 (as described in paragraph B of the section headed "Additional Information in respect of the Rail Merger" on pages 195 to 196) (the "Existing Service Concession Agreement") in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. The intent and effect of the SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail. The financial provisions in the SSCA have been designed to reflect the provisions of the Existing Integrated Operating Agreement that relate to new concession projects, such as the High Speed Rail subject as set out below.

The SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the SSCA

The terms of the SSCA are based substantially on the terms of the Existing Service Concession Agreement. The operating period with respect to the High Speed Rail has commenced on the Commercial Operation Date (High Speed Rail) and will terminate automatically on the earlier of:

(i) a revocation of the Company's franchise under the MTR Ordinance in whole or in respect of the High Speed Rail; and

(ii) the date falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), but may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA, in which case it shall terminate on such other date as is agreed between the Company and KCRC (the "Concession Period (High Speed Rail)").

Certain principal terms of the SSCA that are specific to the High Speed Rail include:

- Additional concession payments for the High Speed Rail

  (i) General

  The additional concession payments to be made by the Company to KCRC and by KCRC to the Company in respect of the High Speed Rail (described below) have been designed to reflect the requirements under the Existing Integrated Operating Agreement, inter alia, for the Company to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail (being discounted at a discount rate which reflects the Company's commercial rate of return in relation to the High Speed Rail).

  The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments, to reflect the current concession payments structure for the existing KCRC system under the Existing Service Concession Agreement.

  The additional concession payments for the High Speed Rail are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the Existing Service Concession Agreement.

  (ii) Variable annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the High Speed Rail fares received or retained by the Company and revenue derived from businesses related to the High Speed Rail which may include, without limitation, advertising, telecommunications, duty free and kiosk rental.

  (iii) Fixed annual payments for the High Speed Rail

  In light of the variable annual payments described in paragraph (ii) above and in order for the Company to be able to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail as described above, the fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (High Speed Rail), will be equal to HK$7,965 million.

These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- Revenue-related arrangements

  In addition, the SSCA contains the following revenue-related arrangements:

  (i) Patronage adjustment

  In respect of actual deviations from the current patronage projections for the High Speed Rail:

  (a) any excess or shortfall in actual patronage of up to 15% in relation to the currently projected patronage for the High Speed Rail will be borne by the Company; and

  (b) any excess or shortfall in actual patronage greater than 15% in relation to the currently projected patronage for the High Speed Rail will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC.

  (ii) Incremental revenue adjustment

  In respect of actual deviations from the currently projected patronage for the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date (High Speed Rail) up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), respectively) and which will be capped at HK$500 million and HK$1,000 million, respectively.

  (iii) Mainland discount programme loss

  In respect of revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator, the Company will receive reimbursement payments from KCRC on an annual basis.

  KCRC and the Company will also discuss in good faith similar reimbursement arrangements should the Mainland operator introduce any other discount programmes in future.

  (iv) Service fees subsidy

  In respect of the proportion of the service fee charged in respect of tickets sold at West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland which Government has directed should be borne by the Company, the Company will receive reimbursement payments from KCRC on an annual basis.

- Pre-operating costs reimbursements

  In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date (High Speed Rail) that satisfy all of the following criteria:

  (i) that directly resulted from the planning and commencement of the operation of the relevant High Speed Rail assets;

  (ii) that have not already been paid, and will not be paid or payable, by Government to the Company under any relevant agreement or which the Company and Government otherwise agree in writing should be treated as a pre-operating cost;

  (iii) that are not covered in any of the payments to be made by KCRC to the Company under the SSCA; and

  (iv) that fall within certain other types of agreed costs and expenses in connection with the operation of the High Speed Rail (including, mobilisation activities in preparation for the opening of the High Speed Rail and trial operations prior to the opening of the High Speed Rail, and other items as may be agreed between KCRC and the Company).

- Equalisation payment

  If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten-year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company. The intention of this equalisation payment is to ensure that the Company is partly protected in the event of early termination of the concession in respect of the High Speed Rail.

- High Speed Rail services

  The Company is obliged to operate the High Speed Rail during the Concession Period (High Speed Rail) to the standards prescribed in the MTR Ordinance and the Existing Operating Agreement (subject as otherwise stated herein). The Company is not regarded as having failed to meet a requirement under the MTR Ordinance or the Existing Integrated Operating Agreement if the failure has resulted from anything done or omitted to be done by the Mainland operator, any Mainland authority or persons directly under their control.

- Return requirements

  If the Concession Period (High Speed Rail) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the High Speed Rail concession property.

IV Continuing Connected Transactions relating to the Operation of the Shatin to Central Link

The following disclosures, in paragraphs IV-1 and IV-2 below of this section (together, the "Continuing Connected Transactions relating to the Operation of the Shatin to Central Link"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

The Shatin to Central Link is commissioned in two parts. The Tuen Ma Line as a whole was commissioned on 27 June 2021 and formed the first part of the Shatin to Central Link. Construction of the second part of the Shatin to Central Link has been completed and commercial operations on the Shatin to Central Link as a whole commenced on 15 May 2022.

IV-1 First Part of the Shatin to Central Link – Tuen Ma Line

The first phase of the Tuen Ma Line (the "TML1") which extended the Ma On Shan Railway ("MOSR") from Tai Wai to Kai Tak with two stations at Hin Keng and Kai Tak, and an interchange station at Diamond Hill, was commissioned on 14 February 2020. The second phase of the Tuen Ma Line, runs from Kai Tak to Hung Hom with two new stations at Sung Wong Toi and To Kwa Wan and incorporating one existing station at Ho Man Tin, and it integrated the TML1 with West Rail into a single railway line that is known as the Tuen Ma Line (the "TML"). Commercial operations on the TML as a whole commenced on 27 June 2021. This forms the first part of the Shatin to Central Link.

A Amendment Operating Agreements, Supplemental Operating Agreements and Amendment No.1 to Memorandum on Performance Requirements

On 11 February 2020, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "TML1 AOA") and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the Supplemental Operating Agreement (the "TML1 SOA") to amend and supplement, respectively, the Existing Integrated Operating Agreement in order to prescribe the operational requirements, such as service standards, that will apply to the TML1. The intent and effect of the TML1 AOA and the TML1 SOA together is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the TML1.

On 21 June 2021, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "TML AOA") to amend and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the Supplemental Operating Agreement (the "TML SOA") and the Amendment No.1 to Memorandum on Performance Requirements (the "Memorandum Amendment") to supplement the Existing Integrated Operating Agreement in order to prescribe the operational requirements that will apply to the TML as a whole, such as service standards. The intent and effect of the TML AOA, the TML SOA and the Memorandum Amendment together is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the TML as a whole.

The TML1 AOA, TML AOA, TML1 SOA, TML SOA and the Memorandum Amendment are each an "operating agreement" for the purposes of the MTR Ordinance, form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the MTR Ordinance so that the TML as a whole is properly regulated under the MTR Ordinance.

The principal terms of the TML1 AOA, TML AOA, TML1 SOA, TML SOA and the Memorandum Amendment have the effect of bringing the TML as a whole within the legal and regulatory regime for the operation of railways in Hong Kong contained in the Existing Integrated Operating Agreement, as explained in the paragraphs above. The amendments under (1) the TML1 AOA and TML1 SOA took effect on 14 February 2020; and (2) the TML AOA, the TML SOA and the Memorandum Amendment took effect on 21 June 2021.

B Supplemental Service Concession Agreement

On 21 June 2021, the Company and KCRC entered into the Supplemental Service Concession Agreement No. 3 (the "TML SSCA") relating to the TML, to supplement the Existing Service Concession Agreement and to supersede and replace the Supplemental Service Concession Agreement No. 2 (the "TML1 SSCA") dated 11 February 2020 entered into between the Company and KCRC relating to the TML1 in order for KCRC to grant a concession to the Company in respect of the TML as a whole and to prescribe the operational and financial requirements that will apply to the TML as a whole. The intent and effect of the TML SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the TML as a whole, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the TML as a whole. The financial provisions in the TML SSCA have been designed to reflect the principles contained in the Existing Integrated Operating Agreement that relate to new concession projects, such as the TML (as referred to in the sub-section headed "Amendment Operating Agreements, Supplemental Operating Agreements and Amendment No.1 to Memorandum on Performance Requirements" above relating to the TML) other than as set out below.

The TML SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forming part of the legal and regulatory regime for the operation of railways in Hong Kong, and is required for the purposes of the MTR Ordinance so that the TML as a whole is properly regulated under the MTR Ordinance.

Principal Terms of the TML SSCA

The terms of the TML SSCA are based substantially on the terms of the Existing Service Concession Agreement, as explained above. The TML SSCA was made on 21 June 2021 and the term of the service concession and licence granted by KCRC to the Company pursuant to the terms of the TML SSCA commenced on 25 June 2021 (the "New Project Effective Date (TML)") and the commercial operation of the TML commenced on 27 June 2021 (the "Commercial Operation Date (TML)"), which will terminate automatically on and from the earlier of (being the "Termination Date (TML)"):

(i) the effective date of the revocation of the franchise pursuant to the MTR Ordinance as it relates to the KCRC railway;

(ii) the effective date of the withdrawal or revocation of the permission by the Director of Lands pursuant to the vesting deeds entered into between KCRC and Government as well as the revocation of the franchise pursuant to the MTR Ordinance as it relates to the TML;

(iii) the first date of commissioning and commercial operation of the extension of the existing East Rail from Hung Hom station to the Admiralty station via the Exhibition Centre station to be designated by Government under a new supplemental service concession agreement for the whole of the Shatin to Central Link (which shall supersede and replace the TML SSCA); and

(iv) the day falling immediately before the second anniversary of the Commercial Operation Date (TML), or such later date as each of the Company, KCRC and Government may agree in a written agreement by no later than the date falling one month prior to the second anniversary of the Commercial Operation Date (TML) or prior to the last extended date (where applicable) (the "Natural Expiry Date (TML)").

Certain principal terms of the TML SSCA that are specific to the TML include:

- Concession payments

  The concession payments under the TML SSCA consists of variable annual payments (payable by the Company to KCRC) and fixed annual payments for the TML (payable by KCRC to the Company).

  (i) Variable annual payments and fixed annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system. For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the TML fares received or retained by the Company and revenue derived from businesses related to the TML which may include, without limitation, telecommunications and kiosk rental, subject to certain agreed adjustments.

  In light of the variable annual payments described in the paragraph above and in order for the Company to be able to earn a commercial return, the fixed annual payments for the TML shall comprise payments from KCRC to the Company over the period commencing on the New Project Effective Date (TML) and ending on the day prior to the Termination Date (TML) (the "Concession Period (TML)"). These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

  (ii) Estimated net amount of the concession payments

  Based on the Concession Period (TML) terminating on the Natural Expiry Date (TML), the estimated net amount of the concession payments under the TML SSCA (taking into account both the estimated variable annual payments and the fixed annual payments for the TML) receivable by the Company from KCRC is expected, in aggregate, to be approximately HK$49 million (subject to certain agreed adjustments) over the Concession Period (TML).

- A new supplemental service concession agreement for the Shatin to Central Link

  On and from the date of the TML SSCA, to and including the date that is four months before the Natural Expiry Date (TML) (prior to any extension or otherwise after such extension(s) as agreed in writing by the Company, KCRC and Government for the purposes of this end date), Government, the Company and KCRC shall commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the Shatin to Central Link which shall, in accordance with the Existing Integrated Operating Agreement, enable the Company to earn a commercial rate of return from its operation of the Shatin to Central Link (and that new supplemental service concession agreement for the Shatin to Central Link is intended to supersede and replace the TML SSCA, except for any provisions of the TML SSCA that are expressly agreed to remain in effect thereafter pursuant to the terms of such new supplemental service concession agreement).

- Return requirements

  If the Concession Period (TML) expires or is terminated, and no supplemental service concession agreement is entered into for the Shatin to Central Link, the Company shall, at no cost to KCRC, redeliver possession of the TML concession property (which, for the avoidance of doubt, excludes such parts of the TML that were previously known as MOSR or West Rail).

IV-2 Shatin to Central Link as a whole

The second part of the Shatin to Central Link, extends from Hung Hom Station to Admiralty Station with a station at Exhibition Centre, and it integrates with the railway lines connecting Lo Wu Station and Lok Ma Chau Station to Hung Hom Station (excluding such portion of the Hung Hom Station designed and constructed pursuant to certain entrustment agreements and those assets set out in certain assignment agreements between KCRC and Government) (the "East Rail Line (Original)") into a single railway line. This, together with the TML, forms the entire Shatin to Central Link.

A Amendment Operating Agreement and Supplemental Operating Agreement

On 10 May 2022, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "SCL AOA") and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the Supplemental Operating Agreement (the "SCL SOA") to amend and supplement, respectively, the Existing Integrated Operating Agreement in order to prescribe the operational requirements that will apply to the Shatin to Central Link as a whole, such as service standards. The intent and effect of the SCL AOA and the SCL SOA together is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the Shatin to Central Link as a whole.

The SCL AOA and the SCL SOA are each an "operating agreement" for the purposes of the MTR Ordinance, form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the MTR Ordinance so that the Shatin to Central Link as a whole is properly regulated under the MTR Ordinance.

The principal terms of the SCL AOA and the SCL SOA have the effect of bringing the Shatin to Central Link as a whole within the legal and regulatory regime for the operation of railways in Hong Kong contained in the Existing Integrated Operating Agreement, as explained in the paragraphs above. The amendments under the SCL AOA and the SCL SOA took effect on 10 May 2022.

B Supplemental Service Concession Agreement

On 10 May 2022, the Company and KCRC entered into the Supplemental Service Concession Agreement No. 4 (the "SCL SSCA") relating to the Shatin to Central Link, to supplement the Existing Service Concession Agreement and to supersede and replace the TML SSCA in order for KCRC to grant a concession to the Company in respect of the Shatin to Central Link as a whole and to prescribe the operational and financial requirements that will apply to the Shatin to Central Link as a whole. The intent and effect of the SCL SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the Shatin to Central Link as a whole, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the Shatin to Central Link as a whole. The financial provisions in the SCL SSCA have been designed to reflect the principles contained in the Existing Integrated Operating Agreement that relate to new concession projects, such as the Shatin to Central Link other than as set out below.

The SCL SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forming part of the legal and regulatory regime for the operation of railways in Hong Kong, and is required for the purposes of the MTR Ordinance so that the Shatin to Central Link as a whole is properly regulated under the MTR Ordinance.

Principal Terms of the SCL SSCA

The terms of the SCL SSCA are based substantially on the terms of the Existing Service Concession Agreement, as explained in the paragraphs above. The SCL SSCA was made on 10 May 2022 and the term of the service concession and licence granted by KCRC to the Company pursuant to the terms of the SCL SSCA commenced on 13 May 2022 (the "New Project Effective Date (NSL)") and the commercial operation of the part of the railway line connecting such portion of the Hung Hom Station, the Exhibition Centre Station and the Shatin to Central Link Portion (as defined in the assignment deed in relation to Inland Lot No. 9070 dated 13 May 2022) ("NSL") commenced on 15 May 2022 (the "Commercial Operation Date (NSL)"), which will terminate automatically on and from the earlier of (being the "Termination Date (SCL)"):

(i) the effective date of the revocation of the franchise pursuant to the MTR Ordinance as it relates to the KCRC railway;

(ii) the effective date of the withdrawal or revocation of the permission by the Director of Lands pursuant to the vesting deeds entered into between KCRC and Government as well as the revocation of the franchise pursuant to the MTR Ordinance as it relates to the Shatin to Central Link;

(iii) any date designated as a Termination Date (SCL) for the purposes of the SCL SSCA in any legally binding agreement for any extension of the period commencing on the New Project Effective Date (NSL) and ending on the day prior to the Termination Date (SCL) (the "Concession Period (SCL)") beyond the Natural Expiry Date (SCL) (as defined in (iv) below) on such terms and conditions as the Company on the one hand, and KCRC (or a nominee of Government and/or any third party designated by Government) on the other may agree by way of an agreement to follow the SCL SSCA (including, without limitation, that the Company shall operate the Shatin to Central Link pursuant to a service concession as defined in the MTR Ordinance) (the "SCL Concession Extension") (which shall supersede and replace the SCL SSCA); and

(iv) the day falling immediately before the tenth anniversary of the Commercial Operation Date (NSL), or such later date as each of the Company, KCRC and Government may agree in a written agreement by no later than the date falling one month prior to the tenth anniversary of the Commercial Operation Date (NSL) or prior to the last extended date (where applicable) (the "Natural Expiry Date (SCL)").

Certain principal terms of the SCL SSCA that are specific to the Shatin to Central Link include:

- Concession payments

  The concession payments under the SCL SSCA consists of variable annual payments (payable by the Company to KCRC) and fixed annual payments (payable by KCRC to the Company).

  (i) Variable annual payments and fixed annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system. For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the TML and the East Rail Line (including the NSL) fares received or retained by the Company and revenue derived from businesses related to the TML and the East Rail Line (including the NSL) which may include, without limitation, telecommunications and kiosk rental, subject to certain agreed adjustments.

  In light of the variable annual payments described in the paragraph above and in order for the Company to be able to earn a commercial return, the fixed annual payments shall comprise payments from KCRC to the Company over the Concession Period (SCL). These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

  (ii) Estimated net amount of the concession payments

  Based on the Concession Period (SCL) terminating on the Natural Expiry Date (SCL), the estimated net amount of the concession payments under the SCL SSCA (taking into account both the estimated variable annual payments and the fixed annual payments for the Shatin to Central Link) payable by the Company to KCRC is expected, in aggregate, to be approximately HK$1,036 million (subject to certain agreed adjustments) over the Concession Period (SCL).

- Equalisation payment

  If the Termination Date (SCL) occurs prior to 31 December 2028, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten-year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company. The intention of this equalisation payment is to ensure that the Company is partly protected in the event of early termination of the concession in respect of the Shatin to Central Link.

- A new legally binding agreement in relation to an SCL Concession Extension for the Shatin to Central Link

  On and from 1 January 2029 (or such earlier date as may be agreed in writing by the Company, KCRC and Government) up to and including the date that is twelve months before the Natural Expiry Date (SCL) (prior to any extension) or such later date as may be agreed in writing by the Company, KCRC and Government, Government, the Company and KCRC shall commence exclusive negotiations in good faith with a view to agreeing the terms of a legally binding agreement in relation to a SCL Concession Extension (including, without limitation, that the Company shall operate the Shatin to Central Link pursuant to a service concession as defined in the MTR Ordinance) which shall apply to the Shatin to Central Link the Existing Integrated Operating Agreement and which should in accordance with the Existing Integrated Operating Agreement, enable the Company to earn a commercial rate of return from its operation of the Shatin to Central Link.

- Return requirements

  If the Concession Period (SCL) expires or is terminated, and there has been no SCL Concession Extension, the Company shall, at no cost to KCRC, redeliver possession of the Shatin to Central Link concession property (which, for the avoidance of doubt, excludes the MOSR, the West Rail Line and the East Rail Line (Original)).

In relation to the Merger-related Continuing Connected Transactions, the Non Merger-related Continuing Connected Transactions, the Continuing Connected Transactions relating to the Operation of the High Speed Rail and the Continuing Connected Transactions relating to the Operation of the Shatin to Central Link (collectively "Transactions") and in accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(i) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(a) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver; and (iv) in the case of the Continuing Connected Transactions relating to the Operation of the Shatin to Central Link, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed and confirmed that each of the Transactions was entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to report on the Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(ii) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(b) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver; and (iv) in the case of the Continuing Connected Transactions relating to the Operation of the Shatin to Central Link, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver, the auditors have provided letters to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that any of the Transactions has not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that any of the Transactions was not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below of this section describes the payment framework adopted in respect of the Rail Merger and paragraphs B to F below of this section set out summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below of this section), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below of this section) and the consideration for the purchased rail assets; and
- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on page 177) in consideration for the execution of the Property Package Agreements (as described in paragraph C on page 178 and in paragraph F below of this section) and the sale of the shares in the subsidiaries of KCRC (the "KCRC Subsidiaries") that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12-month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below in this section, no specific allocation was made between the various elements of the Rail Merger.

B Service Concession Agreement

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;
- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above in this section);

- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

On 23 August 2018, the Company and KCRC entered into the SSCA in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. Further details are set out in the sub-section headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and KCRC entered into the TML1 SSCA in order for KCRC to grant a concession to the Company in respect of the TML1 of the Shatin to Central Link and to prescribe the operational and financial requirements that will apply to the TML1. On 21 June 2021, the Company and KCRC further entered into the TML SSCA in order for KCRC to grant a concession to the Company in respect of the TML and to prescribe the operational and financial requirements that will apply to the TML, which shall supersede the TML1 SSCA. On 10 May 2022, the Company and KCRC entered into the SCL SSCA in order for KCRC to grant a concession to the Company in respect of the Shatin to Central Link as a whole and to prescribe the operational and financial requirements that will apply to the Shatin to Central Link as a whole, which shall supersede the TML SSCA. Further details are set out in the sub-section headed "IV Continuing Connected Transactions relating to the Operation of the Shatin to Central Link" in the section headed "Continuing Connected Transactions".

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph F below in this section and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above in this section and in paragraph F below in this section).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the then Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway.

The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013 and the second was conducted in 2017. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. On 21 March 2017, the Company announced that it and Government had agreed to maintain the fare adjustment mechanism formula and direct-drive nature of such formula, save for certain consequential changes as a result of the review of the formula having been advanced by one year. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such review, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

On 23 August 2018, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, entered into the AOA to amend and supplement the Operating Agreement dated 9 August 2007, as amended, in order to prescribe the operational requirements that will apply to the High Speed Rail. Further details are set out in the sub-section headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, entered into the TML1 AOA and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the TML1 SOA to amend and supplement, respectively, the Existing Integrated Operating Agreement, in order to prescribe the operational requirements that will apply to the TML1 of the Shatin to Central Link. On 21 June 2021, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, further entered into the TML AOA and the Company and the Commissioner for Transport, for and on behalf of Government, further entered into the TML SOA and the Memorandum Amendment to amend and supplement, respectively, the Existing Integrated Operating Agreement in order to prescribe the operational requirements that will apply to the TML of the Shatin to Central Link. On 10 May 2022, the Company and the then Secretary for Transport and Housing, for and on behalf of Government, entered into the SCL AOA and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the SCL SOA to amend and supplement, respectively, the Existing Integrated Operating Agreement, in order to prescribe the operational requirements that will apply to the Shatin to Central Link as a whole. Further details are set out in the sub-section headed "IV Continuing Connected Transactions relating to the Operation of the Shatin to Central Link" in the section headed "Continuing Connected Transactions".

E Memorandum on Performance Requirements

The Memorandum on Performance Requirements was signed by the Company and the Commissioner for Transport for and on behalf of Government on 9 August 2007. It sets out the prescribed formulae for calculating the Performance Requirements. Further details are set out in paragraph A "Amendment Operating Agreements, Supplemental Operating Agreements and Amendment No.1 to Memorandum on Performance Requirements" under paragraph "IV-1 First Part of the Shatin to Central Link – Tuen Ma Line" in the sub-section headed "IV Continuing Connected Transactions relating to the Operation of the Shatin to Central Link" in the section headed "Continuing Connected Transactions".

F Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the "said Assignments").

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

G Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

CAPITAL AND OPERATING EXPENDITURE

There are defined procedures for the appraisal, review and approval of major capital and operating expenditure. During the year ended 31 December 2022, the employment of consultancy services over 0.1% of the net assets of the Group and other capital and operating expenditure over 0.3% of the net assets of the Group required the approval of the Board.

REPORTING AND MONITORING

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Group's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

TREASURY MANAGEMENT

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt portfolio with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

COMPUTER PROCESSING

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2015. Disaster recovery rehearsal on critical applications is conducted annually. For cyber security, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation. The Information Technology Executive Management Committee sets the direction, strategy, and policies related to cyber security for the Company. It steers and oversees the management and performance of all matters relating to cyber security. Various security controls have been implemented and are reviewed regularly to protect the Company from cyber-attacks.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2022 and on 9 March 2023 when this Report was approved. To ensure sufficient coverage is provided, the Company undertakes an annual review of the Directors' and Officers' liability insurance policy of the Company (the "D&O Insurance Policy") in light of recent trends in the insurance market and other relevant factors. The D&O Insurance Policy also indemnifies the other directors within the Group.

GOING CONCERN

The Consolidated Financial Statements on pages 207 to 294 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2023, together with the longer-term forecast for the following five years and is satisfied that the Group has sufficient resources to continue as a going concern for the foreseeable future.

AUDITORS

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Board of Directors to fix their remuneration.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 9 March 2023

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Altamirano Celis, Sandra Elena	√	
Arrowsmith, Stephen		√(Resigned)
Astrand, Anna Caroline	√	
Dr Auyeung Pak-kuen, Rex	√	
Bailie, William Paul	√	
Butcher, Stephen Anthony		√
Chan Chi-hung	√	
Chan Hing-keung	√	
Chan Ting-bond, Michael	√	
Chan Wai-man, Raymond	√	
Dr Chan Yuen Tak-fai, Dorothy	√	
Chen Lei	√(Resigned)	
Cheng Lok-ching, Clarence	√(Resigned)	
Cheng Wai-ching, Margaret	√	
Cheng Yan-kee	√	
Cheng Yiu-lam, Elaine	√	
Chim Edwin		√
Chiu Man	√	
Chow Chiu-wai		√(Resigned)
Chow Chun-ling	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles Grant Ross	√	
Dalin, Bengt Carl Harald Henrik	√	
Damm, Bo Fredrik	√	
Downie, Brian Francis	√	√
Dr Fong Ching, Eddy	√(Resigned)	
Fu Oi-yu	√	
Fung Ching-ting, Teresa	√	
Fung Wai-yee	√(Resigned)	
Hellners, Karl Erik Hjalmar	√	
Ho Ka-wa	√	
Holness, Nigel Graham	√(Resigned)	
Hui Chun-sing, Thomas	√	
Hui Leung-wah, Herbert	√	
Jensen, Frederik Mark	√(Resigned)	
Jia Jun	√	
Jim Kwok-wah	√	
Johannesson, Mats Göran	√(Resigned)	
Jones, Niel Leonard		√
Jubian, Albert	√	
Dr Kam Chak-pui, Jacob	√	
Kenny, Michael John		√
Kershaw, Phillip John	√	√
Kiang Yee-wing	√	
King, Andrew Lewis	√	
Kong Yuk-foon, Doreen		√
Kwok Lai-kay, Lena	√	√
Kwong Chung-hing		√
Lai Ching-kai		√
Lai Kai-shing	√	
Lau Kwai-hin, Kenneth	√	

Name	Director	Alternate Director
Lau Tin-shing, Adi	√	
Lau Wai-ming	√	
Dr Lee Kar-yun, Tony	√	
Lee Wai-kwong, Sunny	√	
Lee Yuen-ling	√	
Leung Yiu-fai, David	√(Resigned)	
Li Sau-lin, Linda		√(Resigned)
Lung Tze-ho	√	√
McCusker, Andrew	√	
Meller, Gillian Elizabeth	√	
Meyer, Peter	√	
Moros, Tony Antonio	√	
Murphy, Stephen John	√	
Mylvaganam, Deva Rajan	√(Resigned)	
Ng Isaac	√	
Ng Lup-nung, Leo	√	
Ng Yuen-fan, Hannah		√
Nilsson, Per Håkan Lennart	√(Resigned)	
O'Flaherty, Raymond Anthony	√	
Ortner, Ruben Daniel Johannes	√	
Pagliarini, Stefan Michael		√(Resigned)
Pang Hoi-hing	√	
Poon Kai-chung	√	
Qabli, Amina Sofie		√(Resigned)
Quarrie, Ian Roger	√	√
Restrepo Suarez, Soraya		√
Sin Pik-kwan	√(Resigned)	
Soo Tsung-lee, Gene	√(Resigned)	
Suen Yiu-tat	√(Resigned)	
Tam Ka-yee, Irene	√	
Tam Lup-kwan	√	√
Tang Chi-fai, David	√	
Wan Wai-yin	√	
Wei Li-ping	√	
Wei Yan	√	
Williams Daniel	√	
Wong Daniel	√	
Wong Hin-cheong	√(Resigned)	
Wong Kin-wai	√	
Wong Kwan-wai, Sammy	√	
Wong O-cheung, Ernest	√(Resigned)	
Wong Wing-kin	√	
Xia Jing	√	
Xu Muhan	√	
Yam Pak-nin	√	√
Yeung Mei-chun, Jeny	√	
Yip Chun-to	√	
Young Ka-fan, Glen		√
Yuen Lai-ki	√	
Yuen Lap-hang	√	
Zhang Ling	√	

CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

KPMG

Independent auditor's report to the members of MTR Corporation Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of MTR Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 207 to 294, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Railway construction projects under entrustment by the HKSAR Government

Refer to note 22 to the consolidated financial statements and the accounting policies in note 2Z

The Key Audit Matter	How the matter was addressed in our audit
The Group and the Government of the Hong Kong Special Administrative Region ("HKSAR Government") have entered into certain entrustment arrangements whereby the Group has been entrusted by the HKSAR Government to proceed with the planning, design, construction, testing and commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the HSR") and the Shatin to Central Link ("the SCL"). As the HKSAR Government is the owner of both the HSR and the SCL, the financing of the development of these two railway lines is borne by the HKSAR Government, with project management fees payable to the Group. **HSR** Pursuant to an agreement entered into with the HKSAR Government on 30 November 2015, the Group will bear and finance project costs for the HSR (including the Group's project management fees) which exceed HK$84.42 billion and the HKSAR Government reserves the right to refer to arbitration the question of the Group's liability, if any, in respect of the project costs borne and financed by the HKSAR Government which exceed HK$65 billion up to HK$84.42 billion. In the event that the Group is found to be liable under the relevant HSR entrustment agreements, the Group's liability for such costs is currently limited to the amount of the project management fees and certain other additional fees received by the Group under the agreements. In September 2018, construction of the HSR was completed following which commercial operations commenced. Based on the information available including the progress of finalising construction contracts, management does not currently believe there is any need to revise further the total project costs of HK$84.42 billion. No provision for project costs has been made in this respect.	Our audit procedures in relation to railway construction projects under entrustment by the HKSAR Government included the following: • inspecting the minutes of the relevant committees of the Group and discussing with management the current status of the HSR and SCL projects, including the forecast total project costs, assessment of contract claims, estimate of further internal costs to be incurred and the assessment of the financial implications of the projects for the Group; • assessing the design and implementation of management's key internal controls over the project cost assessment; • comparing, on a sample basis, costs incurred during the current year in respect of the HSR and SCL with underlying contracts and interim or final payment certificates; • assessing the provisions made for the Hung Hom Incidents Related Costs and Project Management Costs by inspecting, on a sample basis, the relevant underlying documentation and, where applicable, the actual amounts incurred during the year;

Railway construction projects under entrustment by the HKSAR Government *(continued)*	
Refer to note 22 to the consolidated financial statements and the accounting policies in note 2Z *(continued)*	
The Key Audit Matter	**How the matter was addressed in our audit**
SCL Towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension. Subsequently, the Group advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings. A commission of enquiry ("COI") was set up by the HKSAR Government to investigate, inter-alia, certain construction works at the Hung Hom station extension. A redacted final report from the COI was published in May 2020, in which the COI determined that it is satisfied that, with suitable measures completed, the relevant structures will be safe and fit for purpose. The management considered that the suitable measures for the relevant structures have been completed. The Group announced that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom incidents and certain costs associated with the phased opening of the Tuen Ma Line ("Hung Hom Incidents Related Costs"), which were estimated to be around HK$2 billion in aggregate, and has charged the full amount of such estimate in its consolidated statement of profit or loss for the year ended 31 December 2019. In February 2020, the Group notified the HKSAR Government of the latest estimate of the cost to complete the SCL Project of HK$82,999 million including the additional project management fee payable to the Group of HK$1,371 million, which increased from the original estimate of HK$70,827 million. In June 2020, the Legislative Council approved additional funding amounting to HK$10,801 million sought by the HKSAR Government, which excludes the Hung Hom Incidents Related Costs and the additional project management fee for the Group, and the HKSAR Government has maintained its position of disagreement to any increase in the project management fee. The Group has announced that it would continue to meet, on an interim and without prejudice basis, the costs of complying with its project management obligations under the entrustment agreements, which were estimated to be around HK$1,371 million ("Project Management Costs"), and has charged the full amount of such estimate in its consolidated statement of profit or loss for the year ended 31 December 2020. In May 2022, construction of the SCL was completed following which commercial operations commenced. The above matters are ongoing and the timing of their ultimate resolution and any further financial impact to the Group are highly uncertain at this stage. In the event that the Group is found to be liable under the entrustment agreements, the Group's liability is currently limited to a cap equal to the aggregate fees received by the Group under the relevant SCL agreements. However, such cap could not be relied upon if the Group were, in accordance with general principles of law, found to be liable for any loss that had been caused by the fraudulent or other dishonest conduct of its employees or agents. We identified railway construction projects under entrustment by the HKSAR Government as a key audit matter because the arrangements in respect of these railway projects are highly complex and convey rights and obligations on the Group which could potentially have significant financial implications for the Group.	• holding discussions with management and the Group's external legal advisors to assess the Group's legal obligations and financial exposure in connection with the HSR and SCL projects; and • assessing the disclosures in the consolidated financial statements in relation to the HSR and SCL projects with reference to the requirements of the prevailing accounting standards.

<table>
<tr><th colspan="2">Valuation of investment properties ("IP")</th></tr>
<tr><th colspan="2">Refer to note 20A to the consolidated financial statements and the accounting policies in note 2E(i)</th></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The fair value of the Group's IP as at 31 December 2022 was HK$91,671 million, with a loss from fair value remeasurement for the year ended 31 December 2022 recorded in the consolidated statement of profit or loss of HK$3,076 million.

The Group's IP, which are mainly located in Hong Kong, principally comprise shopping malls and office premises.

The fair values of the Group's IP were assessed by external property valuers based on independent valuations.

We identified valuation of the Group's IP as a key audit matter because of the significance of IP to the consolidated financial statements and because the determination of the fair values involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology, market yields and market rents.</td><td>Our audit procedures to assess the valuation of the Group's IP included the following:

• obtaining and inspecting the IP valuation reports prepared by the external property valuers;

• evaluating the independence, qualifications, expertise and objectivity of the external property valuers;

• evaluating the valuation methodologies adopted with reference to prevailing accounting standards and those applied by other external property valuers for similar property types;

• holding discussions with management and the external property valuers and challenging the key assumptions and estimates adopted in the valuations, including prevailing market rents and market yields applied by comparing, on a sample basis, the key estimates adopted with comparable available market data; and

• comparing the tenancy information, including occupancy status and market rents, provided by the Group to the external property valuers with underlying contracts and documentation, on a sample basis.</td></tr>
</table>

<table>
<tr><th colspan="2">Assessing impairment of fixed assets other than assets carried at revalued amounts</th></tr>
<tr><th colspan="2">Refer to notes 20B and 21 to the consolidated financial statements and the accounting policies in note 2I(ii)</th></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The carrying value of the Group's fixed assets other than assets carried at revalued amounts as at 31 December 2022 totalled HK$134,174 million and the related depreciation and amortisation charge for the year ended 31 December 2022 amounted to HK$5,885 million.

The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets.

Shenzhen Metro Line 4 ("SZL4")
In July 2020, the Shenzhen Municipal Government announced that a fare adjustment framework for the Shenzhen Metro network would come into effect on 1 January 2021. The framework was expected to enable the establishment of a mechanism for fare setting and the implementation procedures for fare adjustments.

Up to 31 December 2022, there has been no increase in SZL4's fare since the operations started in 2010 whilst the operating costs continue to rise. The Group anticipated that the mechanism and procedures for fare adjustments will take longer time to implement and patronage will remain at a lower level for a period of time. Based on the impairment assessment performed by management, impairment losses of HK$962 million were recognised on fixed assets for the year ended 31 December 2022 related to the SZL4's service concession assets.

We identified the assessment of impairment of fixed assets other than assets carried at revalued amounts as a key audit matter because the assessment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.</td><td>Our audit procedures to assess the impairment of fixed assets other than assets carried at revalued amounts included the following:

• discussing indicators of impairment on fixed assets with management, and where such indicators were identified, evaluating management's impairment assessments and the assumptions adopted therein, including patronage and fare assumptions, with reference to the actual patronage levels achieved in the current year, latest developments of fare adjustment mechanism and implementation procedures, future operating plans and broader city specific developments;

• involving our internal valuation specialists to assess the methodology and significant assumptions including discount rates adopted by management in its impairment assessment for SZL4;

• comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, investigating significant variances identified and considering the impact on the current year's impairment assessments; and

• performing sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considering the information used to derive the most sensitive assumptions and whether there were any indicators of management bias in their selection.</td></tr>
</table>

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit & Risk Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit & Risk Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit Roy.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

9 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December in HK$ million	Note	2022	2021
Revenue from Hong Kong transport operations	4	**13,404**	13,177
Revenue from Hong Kong station commercial businesses	5	**3,077**	3,208
Revenue from Hong Kong property rental and management businesses	6	**4,779**	5,036
Revenue from Mainland China and international railway, property rental and management subsidiaries	7	**26,016**	25,045
Revenue from other businesses	8	**363**	383
		47,639	46,849
Revenue from Mainland China property development	7	**173**	353
Total revenue		**47,812**	47,202
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	10A	**(6,341)**	(6,155)
– Maintenance and related works		**(2,221)**	(2,339)
– Energy and utilities		**(1,991)**	(1,801)
– General and administration expenses		**(878)**	(838)
– Stores and spares consumed		**(636)**	(588)
– Railway support services		**(186)**	(244)
– Government rent and rates		**(155)**	(156)
– Other expenses		**(305)**	(222)
		(12,713)	(12,343)
Expenses relating to Hong Kong station commercial businesses		**(522)**	(480)
Expenses relating to Hong Kong property rental and management businesses		**(964)**	(970)
Expenses relating to Mainland China and international railway, property rental and management subsidiaries	7	**(24,751)**	(24,155)
Expenses relating to other businesses		**(511)**	(570)
Project study and business development expenses		**(326)**	(312)
		(39,787)	(38,830)
Expenses relating to Mainland China property development	7	**(114)**	(224)
Operating expenses before depreciation, amortisation and variable annual payment	10	**(39,901)**	(39,054)
Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**7,852**	8,019
– Arising from Mainland China property development		**59**	129
		7,911	8,148
Hong Kong property development profit from share of surplus and interest in unsold properties	12	**11,589**	11,097
Loss from fair value measurement of investment properties	13	**(810)**	(1,616)
Operating profit before depreciation, amortisation and variable annual payment		**18,690**	17,629
Depreciation and amortisation	14	**(5,769)**	(5,430)
Impairment loss	21B	**(962)**	–
Variable annual payment		**(323)**	(260)
Share of profit of associates and joint ventures	27	**1,095**	968
Profit before interest, finance charges and taxation		**12,731**	12,907
Interest and finance charges	15	**(982)**	(967)
Profit before taxation		**11,749**	11,940
Income tax	16	**(1,608)**	(2,261)
Profit for the year		**10,141**	9,679
Attributable to:			
– Shareholders of the Company		**9,827**	9,552
– Non-controlling interests		**314**	127
Profit for the year		**10,141**	9,679
Profit/(loss) for the year attributable to shareholders of the Company:	9		
– Arising from recurrent businesses			
– in Hong Kong		**384**	979
– outside Hong Kong		**(227)**	829
		157	1,808
– Arising from property development			
– in Hong Kong		**10,413**	9,277
– outside Hong Kong		**67**	66
		10,480	9,343
– Arising from underlying businesses		**10,637**	11,151
– Arising from fair value measurement of investment properties		**(810)**	(1,599)
		9,827	9,552
Earnings per share:	18		
– Basic		**HK$1.59**	HK$1.55
– Diluted		**HK$1.59**	HK$1.54

The notes on pages 212 to 294 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	2022	2021
Profit for the year		**10,141**	9,679
Other comprehensive (loss)/income for the year (after taxation and reclassification adjustments):	19		
Items that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**43**	119
– Remeasurement of net asset/liability of defined benefit schemes		**(117)**	253
		(74)	372
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		**(1,713)**	279
– non-controlling interests		**(11)**	3
– Cash flow hedges: net movement in hedging reserve		**82**	(143)
		(1,642)	139
		(1,716)	511
Total comprehensive income for the year		**8,425**	10,190
Attributable to:			
– Shareholders of the Company		**8,122**	10,060
– Non-controlling interests		**303**	130
Total comprehensive income for the year		**8,425**	10,190

The notes on pages 212 to 294 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK$ million	Note	At 31 December 2022	At 31 December 2021
Assets			
Fixed assets			
– Investment properties	20A	**91,671**	84,801
– Other property, plant and equipment	20B	**102,297**	101,517
– Service concession assets	21	**35,523**	34,714
		229,491	221,032
Goodwill and property management rights		**61**	69
Railway construction in progress	23	**–**	–
Property development in progress	24A	**41,269**	11,215
Deferred expenditure	25	**2,540**	1,964
Interests in associates and joint ventures	27	**12,338**	12,442
Deferred tax assets	40B	**606**	599
Investments in securities	28	**959**	1,479
Properties held for sale	29	**1,888**	639
Derivative financial assets	30	**216**	363
Stores and spares	31	**2,261**	2,129
Debtors and other receivables	32	**13,889**	14,797
Amounts due from related parties	33	**5,429**	4,384
Cash, bank balances and deposits	34	**16,134**	20,970
		327,081	292,082
Liabilities			
Short-term loans	35A	**1,592**	1,650
Creditors, other payables and provisions	36	**69,692**	40,077
Current taxation	40A	**2,953**	2,381
Amounts due to related parties	37	**592**	479
Loans and other obligations	35A	**46,254**	42,102
Obligations under service concession	38	**10,142**	10,231
Derivative financial liabilities	30	**1,104**	561
Loans from holders of non-controlling interests	39	**140**	146
Deferred tax liabilities	40B	**14,700**	14,418
		147,169	112,045
Net assets		**179,912**	180,037
Capital and reserves	41		
Share capital		**60,547**	60,184
Shares held for Executive Share Incentive Scheme		**(262)**	(245)
Other reserves		**119,001**	119,775
Total equity attributable to shareholders of the Company		**179,286**	179,714
Non-controlling interests		**626**	323
Total equity		**179,912**	180,037

Approved and authorised for issue by the Members of the Board on 9 March 2023

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

The notes on pages 212 to 294 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Other reserves							
for the year ended 31 December in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
2022											
Balance as at 1 January 2022		**60,184**	**(245)**	**3,781**	**2**	**124**	**429**	**115,439**	**179,714**	**323**	**180,037**
Changes in equity for the year ended 31 December 2022:											
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**9,827**	**9,827**	**314**	**10,141**
– Other comprehensive income/(loss) for the year	19	**–**	**–**	**43**	**82**	**–**	**(1,713)**	**(117)**	**(1,705)**	**(11)**	**(1,716)**
– Total comprehensive income/(loss) for the year		**–**	**–**	**43**	**82**	**–**	**(1,713)**	**9,710**	**8,122**	**303**	**8,425**
– Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**3**	**–**	**–**	**–**	**3**	**–**	**3**
– 2021 final ordinary dividend	17	**–**	**–**	**–**	**–**	**–**	**–**	**(6,317)**	**(6,317)**	**–**	**(6,317)**
– Shares issued in respect of scrip dividend of 2021 final ordinary dividend	41A	**246**	**(2)**	**–**	**–**	**–**	**–**	**2**	**246**	**–**	**246**
– 2022 interim ordinary dividend	17	**–**	**–**	**–**	**–**	**–**	**–**	**(2,604)**	**(2,604)**	**–**	**(2,604)**
– Shares issued in respect of scrip dividend of 2022 interim ordinary dividend	41A	**113**	**(1)**	**–**	**–**	**–**	**–**	**1**	**113**	**–**	**113**
– Shares purchased for Executive Share Incentive Scheme	41B	**–**	**(109)**	**–**	**–**	**–**	**–**	**–**	**(109)**	**–**	**(109)**
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	41B	**4**	**95**	**–**	**–**	**(96)**	**–**	**(3)**	**–**	**–**	**–**
– Employee share-based payments		**–**	**–**	**–**	**–**	**118**	**–**	**–**	**118**	**–**	**118**
Balance as at 31 December 2022		**60,547**	**(262)**	**3,824**	**87**	**146**	**(1,284)**	**116,228**	**179,286**	**626**	**179,912**
2021											
Balance as at 1 January 2021		59,666	(262)	3,662	148	181	150	113,243	176,788	193	176,981
Changes in equity for the year ended 31 December 2021:											
– Profit for the year		–	–	–	–	–	–	9,552	9,552	127	9,679
– Other comprehensive income/(loss) for the year	19	–	–	119	(143)	–	279	253	508	3	511
– Total comprehensive income/(loss) for the year		–	–	119	(143)	–	279	9,805	10,060	130	10,190
– Amounts transferred from hedging reserve to initial carrying amount of hedged items		–	–	–	(3)	–	–	–	(3)	–	(3)
– 2020 final ordinary dividend	17	–	–	–	–	–	–	(6,060)	(6,060)	–	(6,060)
– Shares issued in respect of scrip dividend of 2020 final ordinary dividend	41A	369	(1)	–	–	–	–	1	369	–	369
– 2021 interim ordinary dividend	17	–	–	–	–	–	–	(1,548)	(1,548)	–	(1,548)
– Shares issued in respect of scrip dividend of 2021 interim ordinary dividend	41A	74	(1)	–	–	–	–	1	74	–	74
– Shares purchased for Executive Share Incentive Scheme	41B	–	(116)	–	–	–	–	–	(116)	–	(116)
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	41B	3	135	–	–	(135)	–	(3)	–	–	–
– Employee share-based payments		–	–	–	–	83	–	–	83	–	83
– Employee share options exercised	41A	72	–	–	–	(5)	–	–	67	–	67
Balance as at 31 December 2021		60,184	(245)	3,781	2	124	429	115,439	179,714	323	180,037

The notes on pages 212 to 294 form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December in HK$ million	Note	2022		2021	
Cash flows from operating activities					
Cash generated from operations	42	**7,830**		8,333	
Purchase of tax reserve certificates		**(57)**		(57)	
Current tax paid					
– Hong Kong Profits Tax paid		**(506)**		(342)	
– Tax paid outside Hong Kong		**(510)**		(462)	
Net cash generated from operating activities			**6,757**		7,472
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(7,370)**		(5,720)	
– Hong Kong railway extension projects		**(1,465)**		(716)	
– Shenzhen Metro Line 13 project		**(956)**		(925)	
– Investment property projects and fitting out work		**(769)**		(280)	
– Other capital projects		**(248)**		(144)	
Fixed and variable annual payments		**(1,010)**		(988)	
Receipts in respect of property development		**14,162**		17,779	
Payments in respect of property development		**(9,245)**		(1,137)	
Decrease/(increase) in bank deposits with more than three months to maturity when placed or pledged, and structured bank deposits		**4,325**		(1,191)	
Investments in associates and joint ventures		**(431)**		(23)	
Redemption/(purchase) of investments in securities		**480**		(982)	
Dividends received from associates		**351**		361	
Others		**189**		(60)	
Net cash (used in)/generated from investing activities			**(1,987)**		5,974
Cash flows from financing activities					
Proceeds from shares issued under share option scheme		**–**		67	
Purchase of shares for Executive Share Incentive Scheme		**(109)**		(116)	
Proceeds from loans and capital market instruments		**41,646**		16,532	
Repayment of loans and capital market instruments		**(36,729)**		(22,909)	
Interest and finance charges paid		**(961)**		(910)	
Interest received		**293**		176	
Capital element of lease rentals paid		**(149)**		(206)	
Dividends paid to shareholders of the Company		**(8,562)**		(7,165)	
Net cash used in financing activities			**(4,571)**		(14,531)
Net increase/(decrease) in cash and cash equivalents			**199**		(1,085)
Cash and cash equivalents at 1 January			**10,752**		11,879
Effect of exchange rate changes			**(710)**		(42)
Cash and cash equivalents at 31 December	34		**10,241**		10,752

The notes on pages 212 to 294 form part of the consolidated financial statements.

1 Statement of Compliance

These financial statements have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These financial statements have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2022. None of these have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or amendment to standards that is not yet effective for the current accounting period (note 52).

2 Principal Accounting Policies

A Basis of Preparation of the Consolidated Financial Statements

(i) The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied buildings (note 2E(ii));
- investments in securities (note 2O); and
- derivative financial instruments (note 2V).

(ii) The preparation of the consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates are discussed in note 51.

B Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2I(ii)).

2 Principal Accounting Policies *(continued)*

D Associates and Joint Ventures

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets and any impairment loss relating to the investment (note 2I(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. The Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year is recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (note 2I(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated statement of profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (note 2I(ii)).

E Fixed Assets

(i) Investment Properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated statement of profit or loss in the period in which they arise.

(ii) Other Property, Plant and Equipment

Leasehold land registered and located in the Hong Kong Special Administrative Region is stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Self-occupied leasehold buildings where the Group is the registered owner of the property interest are stated at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent professionally qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied leasehold building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the consolidated statement of profit or loss; and

(b) where a revaluation deficit had previously been charged to the consolidated statement of profit or loss and a revaluation surplus subsequently arises, this surplus is firstly credited to the consolidated statement of profit or loss to the extent of the deficit previously charged to the consolidated statement of profit or loss, and thereafter taken to the fixed assets revaluation reserve.

Civil works and plant and equipment, including right-of-use assets arising from freehold or leasehold properties where the Group is not the registered owner of the property interest, and right-of-use assets arising from leases of underlying plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2I(ii)).

Assets under construction include capital works on operating railway and are stated at cost less impairment losses (note 2I(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. The cost of abnormal amounts of wasted material, labour, or other resources incurred is not included in the costs of the asset and charged as an expense in the consolidated statement of profit or loss when incurred. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

In the event any assets under construction are no longer held for use and it is not probable that future economic benefits associated with these assets will flow to the Group, the associated cost capitalised by then will be charged to profit or loss in the reporting period when such conditions met.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(iii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the consolidated statement of profit or loss in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the consolidated statement of profit or loss by reference to the stage of completion at the end of the reporting period while the fair value of construction service is capitalised initially as service concession assets in the consolidated statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for assets subject to service concession is capitalised and amortised on a straight-line basis at rates sufficient to write off their cost less their estimated residual value, if any, over the shorter of the assets' useful lives and the remaining period in which the service concession assets are expected to be available for use by the Group.

Service concession assets are carried at cost less accumulated amortisation and impairment losses, if any (note 2I(ii)).

(iv) Subsequent Expenditure and Gains or Losses on Retirement or Disposal

Subsequent expenditure relating to the replacement and/or upgrade of certain parts of an existing asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with any gain or loss arising therefrom being dealt with in the consolidated statement of profit or loss.

Expenditure on repairs or maintenance of an existing asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the consolidated statement of profit or loss when incurred.

Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the consolidated statement of profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to consolidated statement of profit or loss.

F Leased Assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a Lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (notes 2J and 2I(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2E(i);
– right-of-use assets related to leasehold self-occupied buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2E(ii); and
– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2N.

2 Principal Accounting Policies *(continued)*

F Leased Assets *(continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") and that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(ii) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2AA(ii).

G Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2I(ii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

H Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated at cost less accumulated amortisation and impairment losses (note 2I(ii)). Property management rights are amortised to the consolidated statement of profit or loss on a straight-line basis over the terms of the management rights.

I Impairment of Assets

(i) Credit Losses from Financial Instruments, Contract Assets and Lease Receivables

For the Group's trade receivables, contract assets and lease receivables, the Group recognises a loss allowance for ECL which is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs". Financial assets measured at fair value are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 Principal Accounting Policies *(continued)*

I Impairment of Assets *(continued)*

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including right-of-use assets and service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statement of profit or loss in the year in which the reversals are recognised.

J Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(iii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

- Land and Buildings

Self-occupied buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

- Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

2 Principal Accounting Policies *(continued)*

J Depreciation and Amortisation *(continued)*

- Plant and Equipment

Rolling stock and components	6 – 42 years
Platform screen doors	10 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 45 years
Power supply systems	5 – 40 years
Aerial ropeway and cabin	10 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	9 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 35 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	10 – 40 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.

K Construction Costs of Railway Construction Projects

(i) Costs incurred by the Group in respect of proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage and are not yet considered probable of materialising, the costs concerned are charged to the consolidated statement of profit or loss; and

- where the proposed projects are at a detailed study stage, having been supported by a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress which is stated at cost less impairment losses (note 2I(ii)). In the event the project agreement cannot be reached and the costs concerned are not considered recoverable, the costs concerned are charged to the consolidated statement of profit or loss immediately.

(ii) After entering into a project agreement, all costs (including construction costs, consultancy fees, inhouse staff costs and overhead) incurred in the construction of the railway are dealt with as railway construction in progress which is stated at cost less impairment losses (note 2I(ii)). Upon commissioning of the railway line, the relevant costs are transferred to fixed assets.

L Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. In respect of its interests in such operations, the Group accounts for the purchase costs of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) incurred net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the consolidated statement of profit or loss on the basis of note 2M(iii) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

M Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of Hong Kong property developments under joint operations arrangement are offset against the amounts in property development in progress attributable to that development. Payments received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Profits arising from the development of properties in Hong Kong undertaken under joint operations arrangement are recognised in the consolidated statement of profit or loss as follows:

- where the Group receives payments from developers in excess of the balance in property development in progress (i.e. resulting in deferred income), profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from the development, the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2N and included within properties held for sale; and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, property development in progress relating to that development is charged to the consolidated statement of profit or loss, if any.

(iv) Revenue arising from sales of properties not under joint operations arrangement is recognised when the legal assignment is completed, which is the point in time when the purchaser has the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under "Creditors and other payables".

(v) Where costs are incurred for the construction and/or the related fitting out costs for the properties under construction to be received from a development, those costs are initially capitalised in deferred expenditure before the receipt of such properties, and subsequently recognised as the respective assets upon receipt.

N Properties Held for Sale

Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

For those properties in Hong Kong, cost represents the fair value, as determined by reference to an independent open market valuation, upon the recognition of profits arising from the development as set out in note 2M(iii).

For those properties in Mainland China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

When properties held for sale are sold, the carrying amount of those properties is recognised in the consolidated statement of profit or loss.

2 Principal Accounting Policies *(continued)*

O Investments in Securities

Investments in securities (other than investments in subsidiaries, associates and joint ventures) are classified as at fair value through profit or loss ("FVPL"). Changes in the fair value of the investments (including interest) are recognised in profit or loss.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investments. Profit or loss on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated statement of profit or loss as they arise.

P Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

Q Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (note 2AA) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2I(i) and are reclassified to receivables when the right to the consideration has become unconditional (note 2S).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (note 2AA). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (note 2S).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (note 2AB).

R Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

S Debtors and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (note 2Q). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (note 2I(i)).

T Interest-bearing Borrowings

Interest-bearing borrowings are measured initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs using effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for interest and finance charges (note 2AB).

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the consolidated statement of profit or loss to offset the effect of the gain or loss on the related hedging instrument.

U Creditors and Other Payables

Creditors and other payables are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

V Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are recognised at fair value and are remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

2 Principal Accounting Policies *(continued)*

V Derivative Financial Instruments and Hedging Activities *(continued)*

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated statement of profit or loss in the periods when the hedged item is recognised in the consolidated statement of profit or loss. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the consolidated statement of profit or loss.

(iii) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated statement of profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) Derivatives that do not qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss.

W Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement schemes, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the consolidated statement of profit or loss as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. Service cost and net interest expense/income on the net defined benefit liability/asset are recognised either as an expense in the consolidated statement of profit or loss, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the scheme's obligations.

W Employee Benefits *(continued)*

When the benefits of a scheme are changed, or when a scheme is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit or loss account or capitalised at the earlier of when the scheme amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement schemes are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

  During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated statement of profit or loss in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options) which is released directly to retained profits.

- For award shares under the Executive Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

  For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to consolidated statement of profit or loss in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Executive Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

(iv) For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

(v) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

X Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit (provided they are not part of a business combination).

2 Principal Accounting Policies *(continued)*

X Income Tax *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Y Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the consolidated statement of profit or loss and recognised as deferred income within creditors and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated statement of profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in creditors and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation). To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2I(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

Z Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(ii) Onerous Contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling the contract. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract.

2 Principal Accounting Policies *(continued)*

AA Revenue Recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

(iv) Income from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AB Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the consolidated statement of profit or loss.

Finance charges on lease liabilities are charged to the consolidated statement of profit or loss over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

AC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated statement of profit or loss.

The results of foreign entities are translated into Hong Kong dollars at the average exchange rates for the year. Statement of financial position items are translated into Hong Kong dollars at the closing exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

AD Segment Reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

AE Related Parties

For the purposes of these financial statements, a person, or a close member of that person's family, is related to the Group if that person has control, joint control or significant influence over the Group, or is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate or joint venture of the Group; (iii) the entity is a post-employment benefit scheme for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control or joint control over that entity; (v) a person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of that entity; or (vi) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

2 Principal Accounting Policies *(continued)*

AF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance with the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the end of the reporting period. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the end of the reporting period are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for the High Speed Rail and the Shatin to Central Link

A Rail Merger

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") (the "Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement.

Pursuant to the Service Concession Agreement ("SCA"), KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the franchise period (as it relates to the KCRC railway) is extended. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay to KCRC fixed annual payments and variable annual payments (calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds).

Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value.

Details of the Rail Merger are disclosed in the Company's circular dated 3 September 2007.

B Operating Arrangements for the High Speed Rail

On 23 August 2018, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") in substantially the same manner as the existing railway network. Under the supplemental service concession agreement that was executed on 23 August 2018 ("SSCA-HSR"), the operating period with respect to the HSR is for an initial term of 10 years from 23 September 2018 ("Concession Period (High Speed Rail)"), which may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA-HSR. Under the SSCA-HSR, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the High Speed Rail (with any new assets acquired being classified as "additional concession property (High Speed Rail)"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold (High Speed Rail)"), the Company will be reimbursed for any above-threshold expenditure at the end of the concession period with such reimbursement to be on the basis of depreciated book value.

Details of the SSCA-HSR are disclosed in the Company's announcement dated 23 August 2018.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for the High Speed Rail and the Shatin to Central Link *(continued)*

C Operating Arrangements for the Shatin to Central Link

The Shatin to Central Link ("SCL") was commissioned in two parts:

(a) The first part of the SCL extended the previously existing Ma On Shan Railway from Tai Wai Station to the West Rail Line via East Kowloon to form the Tuen Ma Line. The Tuen Ma Line was in turn commissioned in two phases:

(i) The First Phase of Tuen Ma Line extended the previously existing Ma On Shan Railway from Tai Wai Station to Kai Tak Station with two new stations at Hin Keng and Kai Tak, and incorporating one existing station at Diamond Hill, and was commissioned on 14 February 2020.

(ii) The Second Phase of Tuen Ma Line extends from Kai Tak Station to Hung Hom Station with two new stations at Sung Wong Toi and To Kwa Wan and incorporating one existing station at Ho Man Tin, and it integrated the existing First Phase of Tuen Ma Line with the West Rail Line into a single railway line known as the Tuen Ma Line, and was commissioned on 27 June 2021.

(b) The second part of the SCL extended the East Rail Line (Original) from Hung Hom Station to Admiralty Station via the new Exhibition Centre Station.

Relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements are detailed below.

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the First Phase of Tuen Ma Line in substantially the same manner as the existing railway network for a period of two years from 14 February 2020 including a supplemental service concession agreement ("SSCA1-SCL") with KCRC.

On 21 June 2021, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the Tuen Ma Line, in substantially the same manner as the existing railway network for a period of two years from 27 June 2021 including the supplemental service concession agreement ("SSCA2-SCL") signed with KCRC. The SSCA2-SCL replaced the SSCA1-SCL.

On 10 May 2022, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the SCL as a whole in substantially the same manner as the existing railway network but for a period of ten years from 15 May 2022, being the date of commissioning and commercial operation of the second part of the SCL, including the supplemental service concession agreement ("SSCA3-SCL") signed with KCRC. The SSCA3-SCL superseded and replaced the SSCA2-SCL. Prior to the expiry of this ten-year period, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a legally binding agreement in relation to an extension of SCL concession (including, without limitation, that the Company shall operate the SCL pursuant to a service concession as defined in the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) ("MTR Ordinance")), which shall apply to the SCL the Operating Agreement dated 9 August 2007 and which should in accordance with the Operating Agreement dated 9 August 2007, enable the Company to earn a commercial rate of return from its operation of the SCL.

Details of the SSCA1-SCL, SSCA2-SCL and SSCA3-SCL are disclosed in the Company's announcements dated 11 February 2020, 21 June 2021 and 10 May 2022 respectively.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	**2022**	2021
Domestic Service	**11,245**	11,067
Cross-boundary Service	**4**	5
High Speed Rail	**1,401**	1,363
Airport Express	**128**	89
Light Rail and Bus	**561**	583
Intercity Service	**–**	–
Others	**65**	70
	13,404	13,177

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service) and Tuen Ma Lines. Others include mainly by-law infringement surcharge, Octopus load agent fees and other rail-related income.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2022	2021
Duty free shops and kiosks	1,544	1,594
Advertising	836	894
Telecommunication income	616	631
Other station commercial income	81	89
	3,077	3,208

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2022	2021
Property rental income	4,525	4,787
Property management income	254	249
	4,779	5,036

7 Revenue and Expenses Relating to Mainland China and International Subsidiaries

Revenue and expenses relating to Mainland China and international subsidiaries comprise:

	2022		2021	
in HK$ million	Revenue	Expenses*	Revenue	Expenses*
Melbourne Train	12,812	11,815	12,324	11,992
Sydney Metro North West	662	632	660	619
Sydney Metro City & Southwest	2,234	2,099	1,376	1,361
MTR Nordic**	5,232	5,307	5,489	5,325
London Elizabeth Line	2,721	2,648	2,510	2,388
Shenzhen Metro Line 4 (“SZL4”)	651	675	805	744
Shenzhen Metro Line 13 (“SZL13”) (note 21C)	956	956	925	925
Others	748	619	956	801
	26,016	24,751	25,045	24,155
Property development in Mainland China	173	114	353	224
Total Mainland China and international subsidiaries	26,189	24,865	25,398	24,379

* Expenses include staff costs of HK$10,506 million (2021: HK$10,083 million) (note 10A), maintenance and related work costs of HK$3,607 million (2021: HK$3,081 million) and energy and utilities of HK$779 million (2021: HK$640 million).

** MTR Nordic comprises the Mälartåg, MTR Tech, MTRX, Stockholm Commuter Rail (“Stockholms pendeltåg”) and Stockholm Metro operations in Sweden.

8 Revenue from Other Businesses

Revenue from other businesses comprises income from:

in HK$ million	2022	2021
Ngong Ping 360	**83**	103
Consultancy business	**175**	222
Miscellaneous businesses	**105**	58
	363	383

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) ("High Speed Rail"), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the 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 estate management services in Hong Kong.

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

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

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

9 Segmental Information *(continued)*

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

	Hong Kong transport services				Mainland China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international railway, property rental and management businesses	Mainland China property development	Other businesses	Un-allocated amount	Total
2022									
Revenue from contracts with customers within the scope of HKFRS 15	13,404	1,543	333	–	25,886	173	323	–	41,662
– Recognised at a point in time	12,163	19	–	–	4,819	173	122	–	17,296
– Recognised over time	1,241	1,524	333	–	21,067	–	201	–	24,366
Revenue from other sources	–	1,534	4,446	–	130	–	40	–	6,150
– Lease payments that are fixed or depend on an index or a rate	–	1,520	4,335	–	128	–	4	–	5,987
– Variable lease payments that do not depend on an index or a rate	–	14	111	–	2	–	–	–	127
– Others	–	–	–	–	–	–	36	–	36
Total revenue	13,404	3,077	4,779	–	26,016	173	363	–	47,812
Operating expenses	(12,713)	(522)	(964)	–	(24,751)	(114)	(511)	–	(39,575)
Project study and business development expenses	–	–	–	–	(255)	–	–	(71)	(326)
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	691	2,555	3,815	–	1,010	59	(148)	(71)	7,911
Hong Kong property development profit from share of surplus and interest in unsold properties	–	–	–	11,589	–	–	–	–	11,589
(Loss)/gain from fair value measurement of investment properties	–	–	(814)	–	4	–	–	–	(810)
Operating profit/(loss) before depreciation, amortisation and variable annual payment	691	2,555	3,001	11,589	1,014	59	(148)	(71)	18,690
Depreciation and amortisation	(5,151)	(237)	(13)	–	(303)	–	(65)	–	(5,769)
Impairment loss	–	–	–	–	(962)	–	–	–	(962)
Variable annual payment	(273)	(48)	(2)	–	–	–	–	–	(323)
Share of profit of associates and joint ventures	–	–	–	–	695	–	400	–	1,095
(Loss)/profit before interest, finance charges and taxation	(4,733)	2,270	2,986	11,589	444	59	187	(71)	12,731
Interest and finance charges	–	–	–	–	(59)	79	–	(1,002)	(982)
Income tax	–	–	–	(1,176)	(294)	(71)	–	(67)	(1,608)
(Loss)/profit for the year ended 31 December 2022	(4,733)	2,270	2,986	10,413	91	67	187	(1,140)	10,141
Assets									
Fixed assets	127,055	3,689	91,316	–	6,875	49	507	–	229,491
Other segment assets	7,451	486	818	3,117	10,499	4,678	954	9,926	37,929
Goodwill and property management rights	–	–	11	–	50	–	–	–	61
Railway construction in progress	–	–	–	–	–	–	–	–	–
Property development in progress	–	–	–	41,269	–	–	–	–	41,269
Deferred expenditure	2,428	–	63	49	–	–	–	–	2,540
Deferred tax assets	–	–	–	–	569	9	–	28	606
Investments in securities	–	–	–	–	12	619	328	–	959
Properties held for sale	–	–	–	1,877	–	11	–	–	1,888
Interests in associates and joint ventures	–	–	–	–	10,737	–	1,601	–	12,338
Total assets	136,934	4,175	92,208	46,312	28,742	5,366	3,390	9,954	327,081
Liabilities									
Segment liabilities	24,050	1,834	2,526	31,962	10,884	834	1,886	63,051	137,027
Obligations under service concession	9,976	–	–	–	166	–	–	–	10,142
Total liabilities	34,026	1,834	2,526	31,962	11,050	834	1,886	63,051	147,169
Other information									
Capital expenditure on:									
Fixed assets	7,678	582	578	–	1,245	–	26	–	10,109
Deferred expenditure	1,480	–	34	25	–	–	–	–	1,539
Railway construction in progress	61	–	–	–	–	–	–	–	61
Property development in progress	–	–	–	9,843	–	–	–	–	9,843

9 Segmental Information *(continued)*

in HK$ million	Hong Kong transport services: Hong Kong transport operations	Hong Kong transport services: Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international affiliates: Mainland China and international railway, property rental and management businesses	Mainland China and international affiliates: Mainland China property development	Other businesses	Un-allocated amount	Total
2021									
Revenue from contracts with customers within the scope of HKFRS 15	13,177	1,633	329	–	24,901	353	378	–	40,771
– Recognised at a point in time	12,424	30	–	–	3,876	353	129	–	16,812
– Recognised over time	753	1,603	329	–	21,025	–	249	–	23,959
Revenue from other sources	–	1,575	4,707	–	144	–	5	–	6,431
– Lease payments that are fixed or depend on an index or a rate	–	1,566	4,573	–	143	–	5	–	6,287
– Variable lease payments that do not depend on an index or a rate	–	9	134	–	1	–	–	–	144
Total revenue	13,177	3,208	5,036	–	25,045	353	383	–	47,202
Operating expenses	(12,343)	(480)	(970)	–	(24,155)	(224)	(570)	–	(38,742)
Project study and business development expenses	–	–	–	–	(219)	–	–	(93)	(312)
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	834	2,728	4,066	–	671	129	(187)	(93)	8,148
Hong Kong property development profit from share of surplus and interest in unsold properties	–	–	–	11,097	–	–	–	–	11,097
Loss from fair value measurement of investment properties	–	–	(1,362)	–	(254)	–	–	–	(1,616)
Operating profit/(loss) before depreciation, amortisation and variable annual payment	834	2,728	2,704	11,097	417	129	(187)	(93)	17,629
Depreciation and amortisation	(4,882)	(195)	(17)	–	(268)	–	(68)	–	(5,430)
Variable annual payment	(214)	(45)	(1)	–	–	–	–	–	(260)
Share of profit of associates and joint ventures	–	–	–	–	736	–	232	–	968
(Loss)/profit before interest, finance charges and taxation	(4,262)	2,488	2,686	11,097	885	129	(23)	(93)	12,907
Interest and finance charges	–	–	–	–	(78)	78	–	(967)	(967)
Income tax	–	–	–	(1,820)	(9)	(141)	–	(291)	(2,261)
(Loss)/profit for the year ended 31 December 2021	(4,262)	2,488	2,686	9,277	798	66	(23)	(1,351)	9,679
Assets									
Fixed assets	124,952	3,209	84,449	–	7,818	58	546	–	221,032
Other segment assets	6,828	559	796	4,320	9,639	4,841	494	15,166	42,643
Goodwill and property management rights	–	–	12	–	57	–	–	–	69
Property development in progress	–	–	–	11,215	–	–	–	–	11,215
Deferred expenditure	994	–	194	22	–	–	754	–	1,964
Deferred tax assets	–	1	–	–	570	8	20	–	599
Investments in securities	–	–	–	–	7	701	272	499	1,479
Properties held for sale	–	–	–	544	–	95	–	–	639
Interests in associates and joint ventures	–	–	–	–	11,327	–	1,115	–	12,442
Total assets	132,774	3,769	85,451	16,101	29,418	5,703	3,201	15,665	292,082
Liabilities									
Segment liabilities	8,205	1,643	2,645	17,137	10,945	950	2,357	57,932	101,814
Obligations under service concession	10,047	–	–	–	184	–	–	–	10,231
Total liabilities	18,252	1,643	2,645	17,137	11,129	950	2,357	57,932	112,045
Other information									
Capital expenditure on:									
Fixed assets	5,478	478	831	–	1,120	1	29	–	7,937
Deferred expenditure	671	–	174	19	–	–	–	–	864
Property development in progress	–	–	–	600	–	–	–	–	600

9 Segmental Information *(continued)*

Profit attributable to shareholders of the Company arising from recurrent businesses in Hong Kong of HK$384 million (2021: HK$979 million) represents (i) the profit for the year of HK$1,524 million (2021: HK$2,251 million) arising from recurrent businesses in Hong Kong (after excluding loss from fair value measurement of investment properties of HK$814 million (2021: HK$1,362 million)) and (ii) un-allocated expenses of HK$1,140 million (2021: HK$1,272 million) in Hong Kong (after excluding income tax relating to fair value measurement of investment properties of HK$nil (2021: income tax expenses of HK$79 million)).

Loss attributable to shareholders of the Company arising from recurrent businesses outside Hong Kong of HK$227 million (2021: profit of HK$829 million) represents the profit for the year of HK$87 million (2021: HK$956 million) arising from recurrent business outside Hong Kong (after excluding gain from fair value measurement of investment properties of HK$4 million (2021: loss of HK$254 million) and related income tax of HK$nil (2021: income tax credit of HK$96 million)), net of profit attributable to non-controlling interests of HK$314 million (2021: HK$127 million).

Loss attributable to shareholders of the Company arising from fair value measurement of investment properties of HK$810 million (2021: HK$1,599 million) represents loss from fair value remeasurement on investment properties of HK$3,076 million (2021: HK$2,161 million), gain from fair value measurement of investment properties on initial recognition from property development of HK$2,266 million (2021: HK$545 million) and related income tax of HK$nil (2021: related income tax credit of HK$17 million).

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

Other segment assets mainly include debtors, stores and spares, cash, bank balances and deposits and other assets employed in the operations of individual business segments.

For the year ended 31 December 2022, revenue from one customer (2021: two customers) of the Mainland China and international railway, property rental and management businesses segment has exceeded 10% of the Group's revenue. Approximately 17.21% of the Group's total revenue was attributable to the customer (2021: 15.10% and 11.75% was attributable to each of the two customers respectively).

During the year ended 31 December 2022, profit before tax attributable to joint operations of HK$13,739 million (2021: HK$11,595 million) was recognised.

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		Specified non-current assets	
in HK$ million	**2022**	2021	**2022**	2021
Hong Kong SAR (place of domicile)	**21,586**	21,755	**267,988**	227,462
Australia	**15,708**	14,360	**918**	1,169
Mainland China and Macao SAR	**2,553**	3,077	**16,229**	17,360
Sweden	**5,232**	5,489	**557**	696
United Kingdom	**2,733**	2,521	**7**	35
	26,226	25,447	**17,711**	19,260
	47,812	47,202	**285,699**	246,722

As at 31 December 2022, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK$45,510 million (2021: HK$45,131 million). This amount represents revenue expected to be recognised in the future mainly from the fixed annual payments in relation to High Speed Rail under the SSCA-HSR and in relation to Shatin to Central Link under SSCA3-SCL, as well as the construction, consultancy and project management contracts entered into with the Group's customers. The Group will recognise the expected revenue in future when or as the work is completed or as the services are rendered which is expected to occur over the next one to fifteen years.

The Group has applied the practical expedients in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from certain contracts with customers in existence at the reporting date that are billed based on the performance completed to date or have an original expected duration of one year or less.

10 Operating Expenses

A Total staff costs include:

in HK$ million	2022	2021
Amounts charged to consolidated statement of profit or loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**6,341**	6,155
– maintenance and related works for Hong Kong transport operations	**100**	110
– other expense line items for Hong Kong transport operations	**164**	277
– expenses relating to Hong Kong station commercial businesses	**119**	112
– expenses relating to Hong Kong property rental and management businesses	**173**	170
– expenses relating to Mainland China and international subsidiaries	**10,506**	10,083
– expenses relating to other businesses	**545**	852
– project study and business development expenses	**202**	213
– Hong Kong property development profit from share of surplus and interest in unsold properties	**10**	7
Amounts capitalised in the consolidated statement of financial position under:		
– assets under construction and other projects	**1,386**	942
– service concession assets	**500**	450
– railway construction in progress before offset by government grant	**40**	–
– property development in progress	**242**	241
Amounts recoverable	**606**	576
Total staff costs	**20,934**	20,188

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2022	2021
Share-based payments	**118**	83
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**1,115**	1,052
Amounts recognised in respect of defined benefit retirement schemes	**398**	413
	1,631	1,548

B Auditors' remuneration charged to the consolidated statement of profit or loss include:

in HK$ million	2022	2021
Audit services	**22**	21
Other audit related services	**6**	6
Tax services	**2**	2
Other non-audit services	**2**	–
	32	29

C Loss on disposal of fixed assets of HK$148 million (2021: HK$53 million) is included in operating expenses.

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contributions	Variable remuneration related to performance	Total
2022					
Members of the Board					
– Rex Auyeung Pak-kuen	**1.7**	**–**	**–**	**–**	**1.7**
– Andrew Clifford Winawer Brandler	**0.5**	**–**	**–**	**–**	**0.5**
– Bunny Chan Chung-bun	**0.4**	**–**	**–**	**–**	**0.4**
– Walter Chan Kar-lok	**0.4**	**–**	**–**	**–**	**0.4**
– Pamela Chan Wong Shui	**0.5**	**–**	**–**	**–**	**0.5**
– Dorothy Chan Yuen Tak-fai	**0.5**	**–**	**–**	**–**	**0.5**
– Cheng Yan-kee	**0.5**	**–**	**–**	**–**	**0.5**
– Anthony Chow Wing-kin (retired on 25 May 2022)**	**0.2**	**–**	**–**	**–**	**0.2**
– Eddy Fong Ching (retired on 25 May 2022)**	**0.2**	**–**	**–**	**–**	**0.2**
– Hui Siu-wai	**0.5**	**–**	**–**	**–**	**0.5**
– Sunny Lee Wai-kwong (appointed on 25 May 2022)*	**0.2**	**–**	**–**	**–**	**0.2**
– Rose Lee Wai-mun	**0.4**	**–**	**–**	**–**	**0.4**
– Jimmy Ng Wing-ka	**0.4**	**–**	**–**	**–**	**0.4**
– Benjamin Tang Kwok-bun (retired on 25 May 2022)**	**0.2**	**–**	**–**	**–**	**0.2**
– Carlson Tong (appointed on 25 May 2022)*	**0.3**	**–**	**–**	**–**	**0.3**
– Adrian Wong Koon-man	**0.5**	**–**	**–**	**–**	**0.5**
– Johannes Zhou Yuan	**0.5**	**–**	**–**	**–**	**0.5**
– Christopher Hui Ching-yu	**0.4**	**–**	**–**	**–**	**0.4**
– Former Secretary for Transport and Housing^Δ	**0.2**	**–**	**–**	**–**	**0.2**
– Secretary for Transport and Logistics#	**0.2**	**–**	**–**	**–**	**0.2**
– Permanent Secretary for Development (Works)	**0.5**	**–**	**–**	**–**	**0.5**
– Commissioner for Transport	**0.5**	**–**	**–**	**–**	**0.5**
Members of the Executive Directorate					
– Jacob Kam Chak-pui***	**–**	**10.1**	**1.3**	**5.4**	**16.8**
– Adi Lau Tin-shing (retired on 1 January 2023)	**–**	**7.9**	**–**~	**2.0**	**9.9**
– Roger Francis Bayliss (retired on 1 August 2022)****	**–**	**5.6**	**–**~~	**1.2**	**6.8**
– Margaret Cheng Wai-ching	**–**	**5.6**	**0.7**	**1.9**	**8.2**
– Linda Choy Siu-min	**–**	**4.3**	**0.6**	**1.5**	**6.4**
– Carl Michael Devlin (appointed on 1 August 2022)*****	**–**	**2.3**	**–**~~~	**0.6**	**2.9**
– Herbert Hui Leung-wah	**–**	**5.3**	**0.7**	**1.7**	**7.7**
– Tony Lee Kar-yun	**–**	**4.6**	**0.7**	**1.5**	**6.8**
– Gillian Elizabeth Meller	**–**	**4.7**	**0.7**	**1.7**	**7.1**
– David Tang Chi-fai	**–**	**6.1**	**0.9**	**2.2**	**9.2**
– Jeny Yeung Mei-chun	**–**	**6.1**	**0.9**	**2.2**	**9.2**
	9.7	**62.6**	**6.5**	**21.9**	**100.7**

* Sunny W K Lee and Carlson Tong were appointed as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table covers the period from the respective dates of their appointment to 31 December 2022.

** Anthony W K Chow, Eddy C Fong and Benjamin K B Tang retired as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from 1 January 2022 to the respective dates of their retirement.

*** Jacob C P Kam, being the Chief Executive Officer of the Company, also serves as a Member of the Board.

**** Roger F Bayliss retired as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2022 to the date immediately before his retirement.

***** Carl M Devlin was appointed as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from his date of appointment to 31 December 2022.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2022 for Adi T S Lau, who participated in MTR Retirement Scheme (as described in note 45A(i)) was HK$41,734, pursuant to the requirement of the scheme.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2022 for Roger F Bayliss, who participated in MTR Mandatory Provident Fund Scheme (as described in note 45A(iii)) was HK$4,500.

~~~ The total contributions paid by the Company attributable to the period from his date of appointment to 31 December 2022 for Carl M Devlin, who participated in MTR Mandatory Provident Fund Scheme (as described in note 45A(iii)) was HK$7,500.

Δ The office of the former Secretary for Transport and Housing (held by Frank Chan Fan until 30 June 2022) ceased to be a Member of the Board with effect from 1 July 2022. The amount of his emolument shown in the above table covers the period from 1 January 2022 to the date immediately before his date of cessation.

\# The office of the Secretary for Transport and Logistics (held by Lam Sai-hung) was appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance as a Member of the Board with effect from 1 July 2022. The amount of his emolument shown in the above table covers the period from his appointment to 31 December 2022.
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11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contributions	Variable remuneration related to performance	Total
2021					
Members of the Board					
– Rex Auyeung Pak-kuen	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Bunny Chan Chung-bun	0.4	–	–	–	0.4
– Walter Chan Kar-lok	0.4	–	–	–	0.4
– Pamela Chan Wong Shui	0.5	–	–	–	0.5
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Cheng Yan-kee	0.5	–	–	–	0.5
– Anthony Chow Wing-kin	0.5	–	–	–	0.5
– Eddy Fong Ching	0.5	–	–	–	0.5
– Hui Siu-wai (appointed on 26 May 2021)*	0.3	–	–	–	0.3
– James Kwan Yuk-choi (retired on 26 May 2021)**	0.2	–	–	–	0.2
– Rose Lee Wai-mun	0.5	–	–	–	0.5
– Lucia Li Li Ka-lai (retired on 26 May 2021)**	0.2	–	–	–	0.2
– Jimmy Ng Wing-ka	0.5	–	–	–	0.5
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Adrian Wong Koon-man (appointed on 26 May 2021)*	0.3	–	–	–	0.3
– Johannes Zhou Yuan	0.5	–	–	–	0.5
– Christopher Hui Ching-yu	0.4	–	–	–	0.4
– Former Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Jacob Kam Chak-pui***	–	8.7	1.2	2.4	12.3
– Adi Lau Tin-shing	–	6.0	–~	1.4	7.4
– Roger Francis Bayliss	–	5.1	–~~	1.2	6.3
– Margaret Cheng Wai-ching	–	5.6	0.7	1.2	7.5
– Linda Choy Siu-min	–	4.2	0.6	1.0	5.8
– Peter Ronald Ewen (retired on 22 February 2021)****	–	1.6	–~~~	0.2	1.8
– Herbert Hui Leung-wah	–	5.1	0.7	1.2	7.0
– Tony Lee Kar-yun	–	4.5	0.6	1.1	6.2
– Gillian Elizabeth Meller	–	4.7	0.7	1.1	6.5
– David Tang Chi-fai	–	5.7	0.8	1.4	7.9
– Jeny Yeung Mei-chun	–	5.3	0.8	1.4	7.5
	10.0	56.5	6.1	13.6	86.2

* S W Hui and Adrian K M Wong were appointed as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table covers the period from the respective dates of their appointment to 31 December 2021.

** James Y C Kwan and Lucia Li Li Ka-lai retired as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from 1 January 2021 to the respective dates of their retirement.

*** Jacob C P Kam, being the Chief Executive Officer of the Company, also serves as a Member of the Board.

**** Peter R Ewen retired as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2021 to the date immediately before his retirement.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2021 for Adi T S Lau, who participated in MTR Retirement Scheme (as described in note 45A(i)) was HK$16,380, pursuant to the requirement of the scheme.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2021 for Roger F Bayliss, who participated in MTR Mandatory Provident Fund Scheme (as described in note 45A(iii)) was HK$18,000.

~~~ The total contributions paid by the Company attributable to the period from 1 January 2021 to the date of retirement for Peter R Ewen, who participated in MTR Provident Fund Scheme (as described in note 45A(ii)) was HK$87,374.
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11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

Sammy Wong Kwan Wai was appointed as a Member of the Executive Directorate with effect from 1 January 2023.

The above emoluments do not include the share-based payments which arose from the Executive Share Incentive Scheme as disclosed in note (ii) below.

The director's fees in respect of the office of the former Secretary for Transport and Housing (Frank Chan Fan for the period from 1 January 2021 to 30 June 2022), the office of the Secretary for Transport and Logistics (Lam Sai-hung for the period from 1 July 2022 to 31 December 2022), the office of the Permanent Secretary for Development (Works) (Lam Sai-hung for the period from 1 January 2021 to 7 October 2021 and Ricky Lau Chun-kit for the period from 8 October 2021 to 31 December 2022) and the office of the Commissioner for Transport (Rosanna Law Shuk-pui), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance, were received by the HKSAR Government rather than by the individuals personally.

The director's fee in respect of Christopher Hui Ching-yu, being the Secretary for Financial Services and the Treasury of Government, was received by the HKSAR Government rather than by the individual personally.

Alternate Directors were not entitled to director's fees.

(ii) Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members of the Executive Directorate with vesting periods falling in the years ended 31 December 2022 and 2021, if any, are as follows:

- Jacob C P Kam was granted 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 120,000 Contract-end Restricted Shares on 1 April 2019, 47,400 Restricted Shares and 91,750 Performance Shares on 8 April 2019, 89,300 Restricted Shares on 8 April 2020, 52,750 Restricted Shares and 199,800 Performance Shares on 8 April 2021, 132,000 Contract-end Restricted Shares on 1 April 2022, and 133,700 Restricted Shares on 8 April 2022, of which a total of 183,149 Restricted Shares were vested in 2022 (2021: 54,084 Restricted Shares and 98,117 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$8.8 million (2021: HK$5.6 million). No award shares were lapsed/forfeited in 2022 (2021: 44,083 shares);
- Adi T S Lau was granted 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,250 Restricted Shares on 8 April 2019, 39,100 Restricted Shares on 8 April 2020, 19,700 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 43,000 Restricted Shares on 8 April 2022, of which a total of 94,185 Restricted Shares were vested in 2022 (2021: 23,933 Restricted Shares and 34,810 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$4.2 million (2021: HK$1.2 million). No award shares were lapsed/forfeited in 2022 (2021: 15,640 shares);
- Roger F Bayliss was granted 30,150 Performance Shares on 8 April 2019, 30,250 Restricted Shares on 8 April 2020, 15,050 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 35,400 Restricted Shares on 8 April 2022, of which a total of 70,617 Restricted Shares were vested in 2022 (2021: 10,083 Restricted Shares and 20,803 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$3.6 million (2021: HK$1.0 million). No award shares were lapsed/forfeited in 2022 (2021: 9,347 shares);
- Margaret W C Cheng was granted 17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,550 Restricted Shares on 8 April 2019, 32,450 Restricted Shares on 8 April 2020, 17,450 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 39,500 Restricted Shares on 8 April 2022, of which a total of 22,150 Restricted Shares were vested in 2022 (2021: 22,200 Restricted Shares and 34,810 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$2.0 million (2021: HK$1.0 million). No award shares were lapsed/forfeited in 2022 (2021: 15,640 shares);
- Linda S M Choy was granted 13,500 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 32,200 Restricted Shares on 8 April 2022, of which a total of 4,500 Restricted Shares were vested in 2022 (2021: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$1.5 million (2021: HK$0.8 million). No award shares were lapsed/forfeited in 2022 (2021: nil);
- Carl M Devlin was granted 7,700 Restricted Shares and 7,300 Performance Shares on 8 April 2022, of which no award shares were vested in 2022, and the respective fair value of the share-based payments recognised for a period from his appointment as Member of the Executive Directorate to 31 December 2022 was HK$0.2 million. No award shares were lapsed/forfeited in 2022;
- Herbert L W Hui was granted 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,800 Restricted Shares on 8 April 2019, 29,050 Restricted Shares on 8 April 2020, 15,600 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 37,850 Restricted Shares on 8 April 2022, of which a total of 19,483 Restricted Shares were vested in 2022 (2021: 19,017 Restricted Shares and 34,810 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$1.9 million (2021: HK$0.9 million). No award shares were lapsed/forfeited in 2022 (2021: 15,640 shares);
- Tony K Y Lee was granted 7,900 Restricted Shares and 10,500 Performance Shares on 10 April 2018, 8,300 Restricted Shares on 8 April 2019, 15,500 Restricted Shares on 8 April 2020, 13,550 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 34,050 Restricted Shares on 8 April 2022, of which a total of 12,450 Restricted Shares were vested in 2022 (2021: 10,566 Restricted Shares and 7,245 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$1.7 million (2021: HK$0.8 million). No award shares were lapsed/forfeited in 2022 (2021: 3,255 shares);
- Gillian E Meller was granted 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,400 Restricted Shares on 8 April 2019, 27,000 Restricted Shares on 8 April 2020, 14,250 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 34,600 Restricted Shares on 8 April 2022, of which a total of 18,218 Restricted Shares were vested in 2022 (2021: 18,816 Restricted Shares and 34,810 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$1.8 million (2021: HK$0.9 million). No award shares were lapsed/forfeited in 2022 (2021: 15,640 shares);

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- David C F Tang was granted 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 17,200 Restricted Shares on 8 April 2019, 31,350 Restricted Shares on 8 April 2020, 17,200 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 46,000 Restricted Shares on 8 April 2022, of which a total of 21,917 Restricted Shares were vested in 2022 (2021: 21,801 Restricted Shares and 34,810 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$2.1 million (2021: HK$0.9 million). No award shares were lapsed/forfeited in 2022 (2021: 15,640 shares);
- Jeny M C Yeung was granted 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,350 Restricted Shares on 8 April 2019, 32,650 Restricted Shares on 8 April 2020, 17,200 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and 46,000 Restricted Shares on 8 April 2022, of which a total of 22,066 Restricted Shares were vested in 2022 (2021: 22,117 Restricted Shares and 34,810 Performance Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$2.1 million (2021: HK$1.0 million). No award shares were lapsed/forfeited in 2022 (2021: 15,640 shares); and
- Peter R Ewen was granted 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 12,500 Restricted Shares on 8 April 2019, and 26,500 Restricted Shares on 8 April 2020, of which a total of 38,918 Restricted Shares and 34,810 Performance Shares were vested in 2021, and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$0.2 million. 15,640 award shares were lapsed/forfeited in 2021.

The details of the interest in the Company's shares of the Members of the Board and the Members of the Executive Directorate are disclosed in the Report of the Members of the Board and note 44.

(iii) For the year ended 31 December 2022, the five individuals with the highest emoluments were Members of the Executive Directorate of the Company, whose emoluments are shown above. For the year ended 31 December 2021, three Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total emoluments, including share-based payments, of the other two highest paid individuals for the year ended 31 December 2021 are shown below:

in HK$ million	2021
Base pay, allowances and benefits in kind	12.8
Retirement scheme contributions	0.1
Variable remuneration related to performance	4.2
Share-based payments	0.5
	17.6

The emoluments, including share-based payments, of the two highest paid individuals for the year ended 31 December 2021 are within the band of HK$8,500,001 – HK$9,000,000.

(iv) The aggregate emoluments and share-based payments of Members of the Board and the Executive Directorate for the year was HK$130.6 million (2021: HK$100.5 million).

(v) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (excluding three additional directors appointed pursuant to Section 8 of the MTR Ordinance) specifying the terms of his/her continuous appointments as an INED/a NED and a Member of the relevant Board Committees and/or Advisory Panel, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association where applicable. Dr Rex P K Auyeung was appointed by the Financial Secretary Incorporated ("FSI") as non-executive Chairman of the Company for a term commencing from 1 July 2019 until 31 December 2021 (both dates inclusive), and was re-appointed by FSI for a term commencing from 1 January 2022 until 30 June 2024 (both dates inclusive).

B Award Shares

Award Shares granted, vested, lapsed and/or forfeited, and outstanding in respect of each Member of the Executive Directorate for the year ended 31 December 2022 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 44(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions, as determined by the Remuneration Committee from time to time.

Award Shares granted to the Members of the Executive Directorate under the Company's Executive Share Incentive Scheme are expensed as share-based payments under staff costs as set out in note 2(W)(iii). In accordance with that policy, staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants and recognised over the relevant vesting periods, and includes adjustments to reverse amounts accrued in previous years where grants of Award Shares are lapsed/forfeited prior to vesting.

An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved.

12 Hong Kong Property Development Profit from Share of Surplus and Interest in Unsold Properties

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

in HK$ million	2022	2021
Share of surplus and interest in unsold properties from property development	**11,473**	11,048
Agency fee and other income from West Rail property development (note 24C)	**128**	67
Overheads and miscellaneous studies	**(12)**	(18)
Hong Kong property development profit (pre-tax)	**11,589**	11,097
Hong Kong property development profit (post-tax)	**10,413**	9,277

During the year ended 31 December 2022, profit attributable to shareholders of the Company arising from Hong Kong property development for the year ended 31 December 2022 of HK$10,413 million (2021: HK$9,277 million) represents Hong Kong property development profit of HK$11,589 million (2021: HK$11,097 million) and related income tax expenses of HK$1,176 million (2021: HK$1,820 million).

13 Loss from Fair Value Measurement of Investment Properties

Loss from fair value measurement of investment properties comprises:

in HK$ million	2022	2021
Loss from fair value remeasurement on investment properties	**(3,076)**	(2,161)
Gain from fair value measurement of investment properties on initial recognition from property development	**2,266**	545
	(810)	(1,616)

14 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2022	2021
Depreciation charge relating to:		
– Owned property, plant and equipment	**3,839**	3,854
– Right-of-use assets	**342**	330
	4,181	4,184
Amortisation charge:		
– Amortisation charge relating to service concession assets and other intangible assets	**1,853**	1,627
– Utilisation of government subsidy for SZL4 operation	**(265)**	(381)
	1,588	1,246
	5,769	5,430

15 Interest and Finance Charges

in HK$ million	2022	2022	2021	2021
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**1,033**		905	
– Obligations under service concession	**688**		692	
– Lease liabilities	**44**		51	
– Others	**26**		25	
Finance charges	**43**		45	
Exchange gain	**(253)**		(144)	
		1,581		1,574
Utilisation of government subsidy for SZL4 operation		**(35)**		(51)
Derivative financial instruments:				
– Fair value hedges	**17**		(5)	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(26)**		(11)	
– transferred from hedging reserve to offset exchange gain	**289**		156	
– transferred from hedging reserve upon discontinuation of hedge accounting	**(79)**		(93)	
– Derivatives not qualified for hedge accounting	**(13)**		(8)	
		188		39
Interest expenses capitalised		**(356)**		(322)
		1,378		1,240
Interest income in respect of:				
– Deposits with banks	**(316)**		(215)	
– Others	**(80)**		(58)	
		(396)		(273)
		982		967

During the year ended 31 December 2022, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.1% to 3.3% per annum (2021: 2.0% to 2.2% per annum).

During the year ended 31 December 2022, interest and finance charges net of interest expenses capitalised in relation to the SZL4 were HK$43 million (2021: HK$51 million), which was offset by the subsidy received from the Shenzhen Municipal Government of HK$35 million (2021: HK$51 million).

During the year ended 31 December 2022, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged under fair value hedge was HK$497 million (2021: loss of HK$18 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$514 million (2021: gain of HK$23 million), thus resulting in a net loss of HK$17 million (2021: net gain of HK$5 million).

16 Income Tax in the Consolidated Statement of Profit or Loss

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

in HK$ million	2022	2021
Current tax		
– Hong Kong Profits Tax	**989**	1,803
– Tax outside Hong Kong	**413**	375
	1,402	2,178
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(44)**	36
– depreciation allowances in excess of related depreciation	**359**	302
– revaluation of properties	**17**	(30)
– provisions and others	**(126)**	(225)
	206	83
	1,608	2,261

(i) 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 2022 is calculated at 16.5% (2021: 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 2022 and 2021.

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

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2022, Land Appreciation Tax (before tax effect on deduction of Corporate Income Tax) of HK$51 million (2021: HK$98 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2021: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(ii) 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 2022/2023 amounted to HK$4.6 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. No additional tax provision has been made as a result of the determination received in respect of the above notices of profits tax assessments/additional profits tax assessments and other relevant years of assessment. The date of hearing before the Board of Review is scheduled to be held in early 2024.

16 Income Tax in the Consolidated Statement of Profit or Loss *(continued)*

B Reconciliation between tax expense and accounting profit or loss at applicable tax rates:

	2022		2021	
	HK$ million	%	HK$ million	%
Profit before taxation	**11,749**		11,940	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,925**	**16.4**	1,958	16.4
Land Appreciation Tax (net of tax effect on deduction of Corporate Income Tax)	**38**	**0.3**	73	0.6
Tax effect of non-deductible expenses	**869**	**7.4**	505	4.2
Tax effect of non-taxable revenue	**(1,341)**	**(11.4)**	(274)	(2.3)
Tax effect of unused tax losses not recognised	**118**	**1.0**	10	0.1
Utilisation of tax losses previously not recognised	**(1)**	**–**	(11)	(0.1)
Actual tax expenses	**1,608**	**13.7**	2,261	18.9

17 Dividends

Ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	2022	2021
Ordinary dividends attributable to the year		
– Interim ordinary dividend declared and paid of HK$0.42 (2021: HK$0.25) per share	**2,604**	1,548
– Final ordinary dividend proposed after the end of the reporting period of HK$0.89 (2021: HK$1.02) per share	**5,520**	6,317
	8,124	7,865
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK$1.02 (2021: HK$0.98 per share attributable to year 2020) per share approved and paid during the year	**6,317**	6,060

The 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.

For 2022 final ordinary dividend, the Board proposed that a scrip dividend option will be offered to all shareholders of the Company whose names appeared on the register of members of the Company as at the close of business on 5 June 2023 (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions).

Details of ordinary dividends paid to the FSI are disclosed in note 47P.

18 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK$9,827 million (2021: HK$9,552 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2022	2021
Issued ordinary shares at 1 January	**6,193,462,514**	6,180,927,873
Effect of scrip dividend issued	**3,237,016**	4,187,108
Effect of share options exercised	**–**	1,731,074
Less: Shares held for Executive Share Incentive Scheme	**(5,797,375)**	(5,419,380)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme during the year	**6,190,902,155**	6,181,426,675

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to shareholders of HK$9,827 million (2021: HK$9,552 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's Executive Share Incentive Scheme (2021: after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme), which is calculated as follows:

	2022	2021
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme during the year	**6,190,902,155**	6,181,426,675
Effect of dilutive potential shares under the share option scheme	**–**	213,308
Effect of shares awarded under Executive Share Incentive Scheme	**5,895,643**	5,390,572
Weighted average number of shares (diluted) during the year	**6,196,797,798**	6,187,030,555

C Both basic and diluted earnings per share would have been HK$1.72 (2021: HK$1.80), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$10,637 million (2021: HK$11,151 million).

19 Other Comprehensive (Loss)/Income

A Tax effects relating to each component of other comprehensive (loss)/income of the Group are shown below:

	2022			2021		
in HK$ million	Before-tax amount	Tax (expenses)/ credit	Net-of-tax amount	Before-tax amount	Tax (expense)/ credit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of subsidiaries, associates and joint ventures outside Hong Kong	**(1,713)**	**–**	**(1,713)**	279	–	279
– Non-controlling interests	**(11)**	**–**	**(11)**	3	–	3
	(1,724)	**–**	**(1,724)**	282	–	282
Surplus on revaluation of self-occupied land and buildings	**52**	**(9)**	**43**	142	(23)	119
Remeasurement of net asset/liability of defined benefit schemes	**(155)**	**38**	**(117)**	296	(43)	253
Cash flow hedges: net movement in hedging reserve (note 19B)	**99**	**(17)**	**82**	(171)	28	(143)
Other comprehensive (loss)/income	**(1,728)**	**12**	**(1,716)**	549	(38)	511

19 Other Comprehensive (Loss)/Income *(continued)*

B The components of other comprehensive income/(loss) of the Group relating to cash flow hedges are as follows:

in HK$ million	2022	2021
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(111)**	(227)
Amounts credited to profit or loss during the year:		
– Interest and finance charges (note 15)	**184**	52
– Other expenses	**26**	4
	99	(171)
Tax effect resulting from:		
– Effective portion of changes in fair value of hedging instruments recognised during the year	**18**	37
– Amounts charged to profit or loss during the year	**(35)**	(9)
	82	(143)

20 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Movements and analysis of the Group's investment properties, all of which being held in Hong Kong and Mainland China and carried at fair value, are as follows:

in HK$ million	2022	2021
At 1 January	**84,801**	86,058
Additions*	**9,977**	886
Fair value remeasurement on investment properties (note 13)	**(3,076)**	(2,161)
Exchange (loss)/gain	**(31)**	18
At 31 December	**91,671**	84,801

* Additions for the year include the fair value measurement of investment properties on initial recognition from property development of HK$9,186 million (2021: HK$545 million) and transfer from deferred expenditure of HK$398 million (2021: HK$nil).

All investment properties of the Group were remeasured at 31 December 2022 and 2021. Details of the fair value measurement are disclosed in note 43. Investment properties in Hong Kong and Mainland China are remeasured semi-annually by an independent firm of surveyors, Colliers International (Hong Kong) Limited and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through the consolidated statement of profit or loss in subsequent periods.

Included in the Group's investment properties as at 31 December 2022 was HK$459 million (2021: HK$431 million) relating to properties in Mainland China.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

B Other Property, Plant and Equipment

in HK$ million	Leasehold land	Self-occupied buildings	Civil works	Plant and equipment	Assets under construction	Total
2022						
Cost or Valuation						
At 1 January 2022	**1,765**	**4,201**	**62,275**	**91,493**	**10,036**	**169,770**
Additions	**–**	**55**	**–**	**555**	**4,499**	**5,109**
Disposals/write-offs	**–**	**(31)**	**–**	**(618)**	**(8)**	**(657)**
Loss on revaluation	**–**	**(97)**	**–**	**–**	**–**	**(97)**
Capitalisation adjustments*	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Transfer to Services Concession Assets (note 21)	**–**	**–**	**–**	**(6)**	**(17)**	**(23)**
Other assets commissioned	**–**	**–**	**108**	**2,339**	**(2,447)**	**–**
Exchange differences	**–**	**(39)**	**–**	**(198)**	**(4)**	**(241)**
At 31 December 2022	**1,765**	**4,089**	**62,382**	**93,565**	**12,059**	**173,860**
At Cost	**1,765**	**443**	**62,382**	**93,565**	**12,059**	**170,214**
At 31 December 2022 Valuation	**–**	**3,646**	**–**	**–**	**–**	**3,646**
Aggregate depreciation						
At 1 January 2022	**442**	**234**	**10,429**	**57,148**	**–**	**68,253**
Charge for the year	**34**	**231**	**527**	**3,389**	**–**	**4,181**
Written back on disposals	**–**	**(31)**	**–**	**(563)**	**–**	**(594)**
Written back on revaluation	**–**	**(149)**	**–**	**–**	**–**	**(149)**
Exchange differences	**–**	**(16)**	**–**	**(112)**	**–**	**(128)**
At 31 December 2022	**476**	**269**	**10,956**	**59,862**	**–**	**71,563**
Net book value at 31 December 2022	**1,289**	**3,820**	**51,426**	**33,703**	**12,059**	**102,297**
2021						
Cost or Valuation						
At 1 January 2021	1,765	4,222	62,453	89,973	8,355	166,768
Additions	–	–	–	260	3,693	3,953
Disposals/write-offs	–	(3)	(1)	(529)	(38)	(571)
Loss on revaluation	–	(3)	–	–	–	(3)
Capitalisation adjustments*	–	–	(192)	(16)	–	(208)
Transfer to Services Concession Assets (note 21)	–	–	–	(9)	(11)	(20)
Other assets commissioned	–	–	15	1,947	(1,962)	–
Exchange differences	–	(15)	–	(133)	(1)	(149)
At 31 December 2021	1,765	4,201	62,275	91,493	10,036	169,770
At Cost	1,765	457	62,275	91,493	10,036	166,026
At 31 December 2021 Valuation	–	3,744	–	–	–	3,744
Aggregate depreciation						
At 1 January 2021	408	158	9,909	54,294	–	64,769
Charge for the year	34	232	520	3,398	–	4,184
Written back on disposals	–	(2)	–	(469)	–	(471)
Written back on revaluation	–	(145)	–	–	–	(145)
Exchange differences	–	(9)	–	(75)	–	(84)
At 31 December 2021	442	234	10,429	57,148	–	68,253
Net book value at 31 December 2021	1,323	3,967	51,846	34,345	10,036	101,517

* Capitalisation adjustments related to adjustments on the cost of assets to their final contract values after finalisation of contracts.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

B Other Property, Plant and Equipment *(continued)*

Assets under construction included cost amounting to HK$3.0 billion (2021: HK$2.4 billion) incurred on a project ("Signalling System Project") of replacing the existing signalling system ("SACEM System") by communication-based train control signalling system ("CBTC System") along the Group's four urban lines (Island, Tseung Kwan O, Kwun Tong and Tsuen Wan Lines) in Hong Kong.

Due to the technical complexity involved and the pandemic situation, the contractor for the Signalling System Project took longer than expected to complete the software safety assurance processes previously required by the Group. During the year ended 31 December 2022, a revised technical proposal for the Signalling System Project was developed using established CBTC software with a range of customised functions essential for the Group's train operation in Hong Kong. The Group is working closely with the contractor to progress the Signalling System Project under the revised technical proposal, together with necessary measures to extend the useful lives of certain assets and to equip new trains with the existing SACEM System, on an interim basis, so as to be able to continue to provide quality and reliable train services in the short term. Upon the completion of the Signalling System Project, the new trains will be equipped with the new CBTC System for train services.

C Right-of-use Assets

At 31 December 2022 and 2021, the analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

in HK$ million	Note	2022	2021
Ownership interests in leasehold land held for own use, with remaining lease term of:	(i)		
– less than 50 years		**1,289**	1,323
Ownership interests in self-occupied buildings held for own use, with remaining lease term of:	(i)		
– less than 50 years		**3,646**	3,744
Other self-occupied buildings leased for own use, with remaining lease term of:	(ii)		
– less than 10 years		**174**	223
Plant and equipment leased, with remaining lease term of:	(iii)		
– between 10 and 50 years		**318**	–
– less than 10 years		**379**	451
		5,806	5,741
Ownership interests in leasehold investment properties, with remaining lease term of:			
– 50 years or more		**14**	14
– less than 50 years		**91,450**	84,638
		91,464	84,652
Other leasehold investment property, with remaining lease term of:			
– less than 10 years		**207**	149
		91,671	84,801
		97,477	90,542

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

in HK$ million	2022	2021
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land held for own use	**34**	34
Ownership interests in self-occupied buildings held for own use	**149**	145
Other self-occupied buildings leased for own use	**82**	87
Plant and equipment leased	**77**	64
	342	330
Interest on lease liabilities	**44**	51
Expense relating to short-term leases	**12**	9
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**34**	32

During the year, additions to right-of-use assets were HK$10,409 million (2021: HK$920 million). This amount primarily related to additions of investment properties, including fair value measurement of investment properties on initial recognition from property development (note 13).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 42C and 35D, respectively.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets *(continued)*

(i) Ownership Interests in Leasehold Land and Buildings Held for Own Use

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 47A, 47B and 47C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated statement of profit or loss.

All self-occupied buildings of the Group in Hong Kong are carried at fair value. The details of the fair value measurement are disclosed in note 43. The revaluation surplus of HK$52 million (2021: HK$142 million) and the related deferred tax expenses of HK$9 million (2021: HK$23 million) has been recognised in other comprehensive income/loss and accumulated in the fixed assets revaluation reserve (note 41D). The carrying amount of the self-occupied buildings at 31 December 2022 would have been HK$613 million (2021: HK$639 million) had the buildings been stated at cost less accumulated depreciation.

(ii) Other Self-occupied Buildings Leased for Own Use

The Group has obtained the right to use other properties as its offices through tenancy agreements. The leases typically run for an initial period of 4 to 7 years.

(iii) Other Leases

The Group leases plant and equipment under leases expiring from 2 to 20 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

D Properties Leased Out under Operating Leases

The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated statement of profit or loss as an integral part of the net lease payment receivable.

The gross carrying amount of investment properties of the Group held for use in operating leases were HK$91,671 million (2021: HK$84,801 million). The costs of station kiosks of the Group held for use in operating leases were HK$905 million (2021: HK$863 million) and the related accumulated depreciation charges were HK$576 million (2021: HK$541 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

in HK$ million	**2022**	2021
Within 1 year	**6,355**	7,734
After 1 year but within 2 years	**4,707**	4,549
After 2 years but within 3 years	**3,274**	2,942
After 3 years but within 4 years	**1,448**	2,183
After 4 years but within 5 years	**798**	1,074
After 5 years	**472**	1,149
	17,054	19,631

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated statement of profit or loss over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

21 Service Concession Assets

Movements and analysis of the Group's service concession assets are as follows:

	KCRC Rail Merger								
in HK$ million	Initial concession property	Additional concession property	Additional concession property (High Speed Rail)	Additional concession property (Shatin to Central Link)	Shenzhen Metro Line 4	Shenzhen Metro Line 13	MTR Nordic	London Elizabeth Line	Total
2022									
Cost									
At 1 January 2022	**15,226**	**22,130**	**249**	**160**	**9,212**	**925**	**78**	**60**	**48,040**
Net additions during the year	**–**	**2,922**	**96**	**86**	**95**	**956**	**1**	**–**	**4,156**
Disposals	**–**	**(337)**	**–**	**(7)**	**(141)**	**–**	**–**	**–**	**(485)**
Transfer from other property, plant and equipment (note 20)	**–**	**13**	**–**	**10**	**–**	**–**	**–**	**–**	**23**
Exchange differences	**–**	**–**	**–**	**–**	**(763)**	**(65)**	**(10)**	**(6)**	**(844)**
At 31 December 2022	**15,226**	**24,728**	**345**	**249**	**8,403**	**1,816**	**69**	**54**	**50,890**
Accumulated amortisation and impairment loss									
At 1 January 2022	**4,289**	**5,015**	**23**	**3**	**3,876**	**–**	**69**	**51**	**13,326**
Amortisation charge for the year	**305**	**1,185**	**28**	**10**	**317**	**–**	**2**	**6**	**1,853**
Impairment loss	**–**	**–**	**–**	**–**	**962**	**–**	**–**	**–**	**962**
Written-off on disposals	**–**	**(310)**	**–**	**(1)**	**(79)**	**–**	**–**	**–**	**(390)**
Exchange differences	**–**	**–**	**–**	**–**	**(370)**	**–**	**(9)**	**(5)**	**(384)**
At 31 December 2022	**4,594**	**5,890**	**51**	**12**	**4,706**	**–**	**62**	**52**	**15,367**
Net book value at 31 December 2022	**10,632**	**18,838**	**294**	**237**	**3,697**	**1,816**	**7**	**2**	**35,523**

21 Service Concession Assets *(continued)*

in HK$ million	KCRC Rail Merger: Initial concession property	KCRC Rail Merger: Additional concession property	Additional concession property (High Speed Rail)	Additional concession property (Shatin to Central Link)	Shenzhen Metro Line 4	Shenzhen Metro Line 13	MTR Nordic	London Elizabeth Line	Total
2021									
Cost									
At 1 January 2021	15,226	20,220	180	27	8,937	–	86	60	44,736
Net additions during the year	–	2,198	69	78	101	925	–	–	3,371
Disposals	–	(253)	–	–	(101)	–	–	–	(354)
Transfer from other property, plant and equipment (note 20)	–	9	–	11	–	–	–	–	20
Reclassification within service concession assets	–	(44)	–	44	–	–	–	–	–
Exchange differences	–	–	–	–	275	–	(8)	–	267
At 31 December 2021	15,226	22,130	249	160	9,212	925	78	60	48,040
Accumulated amortisation									
At 1 January 2021	3,985	4,321	4	1	3,432	–	74	44	11,861
Amortisation charge for the year	304	906	19	2	384	–	2	7	1,624
Written-off on disposals	–	(212)	–	–	(53)	–	–	–	(265)
Exchange differences	–	–	–	–	113	–	(7)	–	106
At 31 December 2021	4,289	5,015	23	3	3,876	–	69	51	13,326
Net book value at 31 December 2021	10,937	17,115	226	157	5,336	925	9	9	34,714

A Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the upgrade of the initial concession property after inception of the Rail Merger. Additional concession property (High Speed Rail) and additional concession property (Shatin to Central Link) relate to the expenditures for the upgrade of the concession property of High Speed Rail and Shatin to Central Link respectively.

B SZL4 forms part of the Shenzhen Metro, which is operated by a wholly owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). In July 2020, the Shenzhen Municipal Government announced that a fare adjustment framework for the Shenzhen Metro network would come into effect on 1 January 2021. The framework was expected to enable the establishment of a mechanism for fare setting and the implementation procedures for fare adjustments. Up to 31 December 2022, there has been no increase in SZL4's fare since MTRSZ started operating the line in 2010 whilst the operating costs continue to rise. As disclosed in previous years, if a suitable fare increase and adjustment mechanism are not implemented soon, the long-term financial viability of this line will be impacted.

As it is anticipated that the mechanism and procedures for fare adjustments will take longer time to implement and patronage will remain at a lower level for a period of time, an impairment test was performed for SZL4 at 30 June 2022, which carried a book value of HK$4,589 million, and the corresponding recoverable amount was determined at HK$3,627 million as at 30 June 2022. As such, an impairment provision of HK$962 million was recognised for the SZL4 service concession assets in the consolidated statement of profit or loss for the six months ended 30 June 2022. The recoverable amount for impairment had been determined based on a value in use calculation covering the remaining service concession period. An estimated pre-tax discount rate of 9.2% was used in estimating SZL4's value in use as at 30 June 2022. Based on the review performed by the Group as at 31 December 2022, no further impairment loss was recognised as at 31 December 2022.

C On 30 October 2020, MTR CREC Metro (Shenzhen) Company Ltd., formerly translated as "MTR CREG Metro (Shenzhen) Company Ltd." a subsidiary of the Company, signed the Project Concession Agreement with the Shenzhen Municipal Government for a Build-Operate-Transfer ("BOT") project in respect of the construction of SZL13 and the operation of SZL13 for a term of 30 years. Accordingly, the fair value of construction services rendered during the year ended 31 December 2022 of HK$956 million (2021: HK$925 million) was capitalised as service concession assets by reference to the stage of completion at the end of the reporting period.

Total capital cost for the project is estimated at RMB4.9 billion (HK$5.5 billion). As at 31 December 2022, the Group has incurred cumulative expenditure of RMB1.6 billion (HK$1.8 billion) and has authorised outstanding commitments totalling RMB3.3 billion (HK$3.7 billion) (2021: RMB4.2 billion (HK$5.7 billion)) in relation to the project which are included in capital commitment (note 48A).

22 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 22A(b)(v) below), up to the date of this annual report, no claim has been received from the HKSAR Government.

(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 FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

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

(c) As at 31 December 2022, 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 22A(b)(v) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 31 December 2022 and up to the date of this annual report; (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

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 2022, HK$153 million (2021: HK$124 million) of such costs were incurred by the Company, which are payable by the HKSAR Government. As at 31 December 2022, the amount of such costs which remained outstanding from the HKSAR Government was HK$209 million (as at 31 December 2021: HK$246 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.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(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 22B(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 22B(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. For the avoidance of doubt, the Additional Funding sought by the HKSAR Government and approved by the Legislative Council excluded the Hung Hom Incidents Related Costs (as detailed in note 22B(c)(ii) below) and Additional PMC of HK$1,371 million for the Company as further detailed in note 22B(b)(ii) below.

(ii) Provision for Additional PMC

As detailed in note 22B(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 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.

However, given the Company's view that there has been a significant delay to the project programme and associated increase in project management costs to the Company, the Company has written to the HKSAR Government to restate the Company's belief that the Company is entitled (in accordance with the terms of the SCL EA3 and following the Company's receipt of independent expert advice) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. However, the HKSAR Government has responded to the Company by reiterating that the HKSAR Government considers there have not been any material modifications to any of the scope of works, entrustment activities and/or entrustment programme contained in the SCL EA3 and, as such, the HKSAR Government maintains its position of disagreement to any increase in the project management fee.

Despite the fact that this matter needs to be resolved, the Company has continued, and will continue, to comply with its project management obligations under the SCL EA3 and has met, and will continue to meet, the costs thereof, on an interim and without prejudice basis, to allow the SCL Project to progress in accordance with the latest programme in order to achieve a full opening of the SCL as soon as reasonably practicable, whilst reserving its position as to the ultimate liability for such costs and as to its rights 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 (whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3), 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 2022, the provision utilised amounted to HK$314 million (2021: HK$533 million) and no provision was written back (2021: HK$nil). As at 31 December 2022, the provision of HK$479 million (2021: HK$793 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 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 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.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(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**").

To address each of the First Hung Hom Incident and the Second Hung Hom Incident, the Company has submitted to the HKSAR Government proposals for verification of the relevant as-constructed conditions and workmanship quality.

*(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 22B(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 2022, the provision utilised amounted to HK$117 million (2021: HK$206 million) and no provision was written back (2021: HK$nil). As at 31 December 2022, the provision of HK$827 million (2021: HK$944 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.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(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 22B(c)(i) above), up to the date of this 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 2022 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.

23 Railway Construction in Progress

The railway construction costs of Oyster Bay Station are as follows:

in HK$ million	Balance at 1 January	Additions	Balance at 31 December
2022			
Oyster Bay Station			
Construction costs	–	**7**	**7**
Consultancy fees	–	**46**	**46**
Staff costs and other expenses	–	**44**	**44**
Finance costs	–	**1**	**1**
Utilisation of government grant (note 47H)	–	**(98)**	**(98)**
Total	–	–	–

The additions represent capital expenditure incurred and transferred from deferred expenditure for Oyster Bay Station.

The project is targeted to complete in 2030. Total capital cost for the project based on the defined scope of works and programme is estimated at HK$6.5 billion. As at 31 December 2022, the Company has incurred cumulative expenditure of HK$98 million, which was wholly offset by the government grant, and has authorised outstanding commitments totalling HK$6,366 million in relation to the project which are included in Capital Commitments (note 48A).

24 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the land over the stations along railway lines.

As at 31 December 2022, the outstanding Hong Kong Property Development Projects of the Company mainly include Oyster Bay Project at depot site in Siu Ho Wan, the Tseung Kwan O Extension Property Project at the depot sites in Tseung Kwan O Area 86 (LOHAS Park), South Island Line Property Project at sites in Wong Chuk Hang (THE SOUTHSIDE), Kwun Tong Line Extension Property Project at sites in Ho Man Tin, and East Rail Line/Light Rail Property Projects at sites along the related railway lines.

A Property Development in Progress

in HK$ million	Balance at 1 January	Net additions*	Transfer out to profit or loss	Balance at 31 December
2022				
Hong Kong Property Development Projects	**11,215**	**41,088**	**(11,034)**	**41,269**
2021				
Hong Kong Property Development Projects	11,942	(234)	(493)	11,215

* The net additions represent expenditure incurred for Hong Kong property development projects, including the amount of land premium, capital expenditure and construction costs transferred from deferred expenditure, and be offset by payments received from developers and utilisation of government grant.

The lease terms of leasehold land in Hong Kong included under property development in progress are between 10 and 50 years.

B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension, South Island Line and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds have not been included in the consolidated statement of financial position. As at 31 December 2022, the balance of the stakeholding funds was HK$23,715 million (2021: HK$36,320 million).

C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2022, HK$128 million (2021: HK$67 million) of agency fee and other income in respect of West Rail property development was recognised (note 12). During the year ended 31 December 2022, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$55 million (2021: HK$59 million).

25 Deferred Expenditure

As at 31 December 2022, deferred expenditure included costs of HK$2.3 billion (2021: HK$0.9 billion) mainly incurred for certain railway projects which the project agreements are yet to be reached with the HKSAR Government. The future development of the respective projects is expected to bring future economic benefits to the Group. In the event that in a future period it is no longer considered probable that the corresponding project agreements can be reached, and the costs concerned are no longer considered as recoverable, the costs concerned will be charged to the consolidated statement of profit or loss in that reporting period.

26 Investments in Subsidiaries

The following list contains the particulars of principal subsidiaries of the Company as at 31 December 2022:

Name of company	Issued share capital/ contributed registered capital	Proportion of ownership interest			Place of incorporation/ establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary(ies)		
LOUDER HK Company Limited	HK$100	100%	–	100%	Hong Kong	Retail
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Lab Company Limited	HK$100	100%	100%	–	Hong Kong	Holding of investments
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operating the Tung Chung to Ngong Ping cable car system and theme village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment and management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900	60% on ordinary shares;	–	100% on ordinary shares;	Australia	Railway operations and maintenance
	AUD100	30% on Class A shares	–	100% on Class A shares		
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Railway operations and maintenance
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Design, delivery and integration of railway related systems
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macao	Railway consultancy services
MTR Railway Operations (Macau) Company Limited	MOP25,000	100%	–	100%	Macao	Railway operations and management
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Mälartåg AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co., Ltd.^@	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR Corporation (Shenzhen) Limited^@	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR CREC Metro (Shenzhen) Company Limited#@	RMB868,600,000	83%	–	83%	The People's Republic of China	Railway construction, operations and management

26 Investments in Subsidiaries *(continued)*

Name of company	Issued share capital/ contributed registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary(ies)	Place of incorporation/ establishment and operation	Principal activities
MTR Property Development (Shenzhen) Company Limited[#@]	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance

* Subsidiaries not audited by KPMG

^ Wholly foreign owned enterprise registered under the People's Republic of China (PRC) Law

Sino-foreign equity joint venture registered under PRC Law

@ English translation for identification purpose only

The Directors of the Company are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which, in the opinion of the Directors, materially contribute to the Group's results, assets or liabilities.

27 Interests in Associates and Joint Ventures

The following list contains the particulars of material associates and joint venture as at 31 December 2022, all of which are unlisted corporate entities whose quoted market price is not available:

Name of company	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Associates					
Octopus Holdings Limited ("OHL")[#]	64.02%	64.02%	–	Hong Kong	Holding company of a group of companies which engage in the operation of a contactless smartcard common payment system in Hong Kong and consultancy services
Beijing MTR Corporation Limited[~@]	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited[α@]	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited ("HZMTR")[*~@]	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited*	30%	–	30%	United Kingdom	Railway operations and management
NRT Pty Ltd*	27.55%	–	27.55%	Australia	Financing, railway operations and maintenance
Joint Venture					
Hangzhou MTR Line 5 Corporation Limited[~@]	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

In January 2022, the Company acquired a total of 6.62% additional shares of OHL from Citybus Limited and New World First Bus Services Limited (subsidiaries of Bravo Transport Services Limited). After the acquisition, the Company's shareholding in OHL increased from 57.40% to 64.02%. The Group regards OHL and its subsidiaries (the "OHL Group") as associates as the Company cannot control the OHL Group's activities unilaterally taking into account the Company's voting rights at the board meetings of OHL.

* Companies not audited by KPMG

~ Sino-foreign co-operative joint venture registered under PRC Law

α Limited liability company (wholly owned by a legal person) under PRC Law

@ English translation for identification purpose only

All the associates and joint ventures are accounted for using the equity method in the consolidated financial statements and considered to be not individually material.

27 Interests in Associates and Joint Ventures *(continued)*

The summary financial information of the Group's effective interests in associates and joint ventures is as follows:

in HK$ million	2022	2021
Income	**7,713**	7,906
Expenses and others	**(6,077)**	(6,494)
Profit before taxation	**1,636**	1,412
Income tax	**(541)**	(444)
Net profit	**1,095**	968
Other comprehensive (loss)/income	**(887)**	304
Total comprehensive income	**208**	1,272
Assets	**34,690**	33,179
Liabilities	**(22,659)**	(20,789)
Net assets	**12,031**	12,390
Group's share of net assets of the associates and joint ventures	**12,031**	12,390
Goodwill	**307**	52
Carrying amount in the consolidated statement of financial position	**12,338**	12,442

HZMTR, a 49% owned associate of the Group, operates Hangzhou Metro Line 1 ("HZL1"), the HZL1 Xiasha Extension and HZL1 Airport Extension. HZMTR has been suffering from losses for most of the time during the past years due to slow growth of patronage. In the last few years, the patronage level has been further impacted by the pandemic. As there is no patronage protection mechanism under this project agreement, the long-term financial viability of this line will be impacted if patronage remains at a low level over a period of time.

28 Investments in Securities

Investments in securities are measured at fair value and comprise of:

in HK$ million	2022	2021
Unlisted equity securities held by subsidiaries	**669**	708
Listed debt securities held by an overseas insurance underwriting subsidiary	**290**	272
Bank medium-term notes held by the Company	**–**	499
	959	1,479

As at 31 December 2022, all debt securities were expected to mature within one year except for HK$235 million (2021: HK$225 million) which were expected to mature after one year. During the year ended 31 December 2022, net fair value gain on investments in securities of HK$20 million (2021: HK$28 million) was recognised.

29 Properties Held for Sale

in HK$ million	2022	2021
Properties held for sale		
– at cost	**1,307**	614
– at net realisable value	**581**	25
	1,888	639
Representing:		
Hong Kong property development	**1,876**	543
Mainland China property development	**12**	96
	1,888	639

Properties held for sale represent the Group's interest in unsold properties or properties received by the Group as sharing-in-kind in Hong Kong, and the Group's unsold properties in Mainland China.

For Hong Kong property development, the net realisable values as at 31 December 2022 and 2021 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Colliers International (Hong Kong) Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value of the Group are stated net of provision of HK$43 million (2021: HK$4 million) made in order to state these properties at the lower of their cost and estimated net realisable value. The remaining lease terms of leasehold land in Hong Kong included under properties held for sale are between 10 and 50 years.

30 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2022							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	178	5					
– inflow			98	20	65	–	183
– outflow			(95)	(19)	(64)	–	(178)
– not qualified for hedge accounting:	152	5					
– inflow			157	–	–	–	157
– outflow			(152)	–	–	–	(152)
Cross currency swaps							
– fair value hedges:	1,213	25					
– inflow			257	11	317	706	1,291
– outflow			(249)	(13)	(295)	(698)	(1,255)
– cash flow hedges:	12,915	45					
– inflow			265	265	6,309	10,381	17,220
– outflow			(249)	(250)	(6,234)	(10,289)	(17,022)
Net settled:							
Interest rate swaps							
– fair value hedges	5,392	39	(37)	49	37	–	49
– cash flow hedges	4,442	26	30	17	(21)	–	26
– not qualified for hedge accounting	2,534	71	26	12	24	20	82
	26,826	216	51	92	138	120	401
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,475	(6)					
– inflow			1,475	–	–	–	1,475
– outflow			(1,481)	–	–	–	(1,481)
– cash flow hedges:	383	(30)					
– inflow			223	86	44	–	353
– outflow			(237)	(96)	(50)	–	(383)
– not qualified for hedge accounting:	223	(18)					
– inflow			137	10	58	–	205
– outflow			(146)	(11)	(66)	–	(223)
Cross currency swaps							
– fair value hedges:	4,565	(261)					
– inflow			749	2,324	941	826	4,840
– outflow			(841)	(2,363)	(996)	(867)	(5,067)
– cash flow hedges:	9,649	(600)					
– inflow			464	183	1,589	8,507	10,743
– outflow			(559)	(203)	(1,815)	(8,794)	(11,371)
Net settled:							
Interest rate swaps							
– fair value hedges	2,401	(142)	(48)	(35)	(36)	(33)	(152)
– not qualified for hedge accounting	300	(47)	(10)	(9)	(20)	(17)	(56)
	18,996	(1,104)	(274)	(114)	(351)	(378)	(1,117)
Total	45,822						

30 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2021							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	498	1					
– inflow			499	–	–	–	499
– outflow			(498)	–	–	–	(498)
– cash flow hedges:	128	2					
– inflow			33	97	–	–	130
– outflow			(32)	(96)	–	–	(128)
– not qualified for hedge accounting:	111	1					
– inflow			104	8	–	–	112
– outflow			(103)	(8)	–	–	(111)
Cross currency swaps							
– fair value hedges:	4,969	159					
– inflow			2,078	972	1,513	707	5,270
– outflow			(1,917)	(904)	(1,496)	(698)	(5,015)
– cash flow hedges:	12,742	145					
– inflow			262	262	6,210	10,871	17,605
– outflow			(240)	(240)	(6,150)	(10,760)	(17,390)
Net settled:							
Interest rate swaps							
– fair value hedges	2,400	26	26	6	2	(1)	33
– cash flow hedges	500	17	(3)	1	8	12	18
– not qualified for hedge accounting	2,034	12	(2)	2	6	7	13
	23,382	363	207	100	93	138	538
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	3,450	(10)					
– inflow			1,974	1,476	–	–	3,450
– outflow			(1,980)	(1,480)	–	–	(3,460)
– cash flow hedges:	424	(15)					
– inflow			197	57	151	4	409
– outflow			(203)	(59)	(158)	(4)	(424)
– not qualified for hedge accounting:	276	(15)					
– inflow			206	20	35	–	261
– outflow			(218)	(21)	(37)	–	(276)
Cross currency swaps							
– fair value hedges:	783	(5)					
– inflow			13	13	38	837	901
– outflow			(5)	(11)	(41)	(840)	(897)
– cash flow hedges:	9,654	(515)					
– inflow			202	485	720	9,365	10,772
– outflow			(217)	(561)	(817)	(9,660)	(11,255)
Net settled:							
Interest rate swaps							
– not qualified for hedge accounting	300	(1)	3	1	(2)	(3)	(1)
	14,887	(561)	(28)	(80)	(111)	(301)	(520)
Total	38,269						

30 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2022 and 2021 were used to discount the cash flows of financial instruments. Interest rates used ranged from 3.63% to 4.99% (2021: 0.16% to 1.68%) for Hong Kong dollars, 3.81% to 5.16% (2021: 0.21% to 1.70%) for United States dollars, 3.01% to 4.62% (2021: 0.02% to 2.12%) for Australian dollars and 0.07% to 1.14% (2021: -0.04% to 0.26%) for Japanese yen.

The table above details the remaining contractual maturities at the end of the reporting period of the Group's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay. The details of the fair value measurement are disclosed in note 43.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") for the Company is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Company's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. These instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Company are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 months of projected cash requirements at the parent company level as specified in the Model. The Company also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

As at 31 December 2022, the Group had undrawn committed banking facility of HK$14,512 million (2021: HK$15,523 million).

The following table details the remaining contractual maturities at the end of the reporting period of the Group's loans and other obligations other than lease liabilities (as detailed in note 35D below), which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2022				2021			
in HK$ million	Capital market instruments	Bank loans	Others	Total	Capital market instruments	Bank loans	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**28,382**	**1,153**	**–**	**29,535**	30,068	1,040	–	31,108
Amounts repayable within a period of between 2 and 5 years	**11,905**	**804**	**–**	**12,709**	9,368	710	620	10,698
Amounts repayable within a period of between 1 and 2 years	**8,254**	**202**	**619**	**9,075**	1,992	1,758	–	3,750
Amounts repayable within 1 year	**3,843**	**3,302**	**–**	**7,145**	6,698	1,843	–	8,541
	52,384	**5,461**	**619**	**58,464**	48,126	5,351	620	54,097

Others represent obligations under lease out/lease back transaction (note 20E).

30 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Group's exposure to liquidity risks in respect of Derivative Financial Liabilities (note 30A), Lease Liabilities (note 35D), Creditors, Other Payables and Provisions (note 36), Amounts Due to Related Parties (note 37), Obligations under Service Concession (note 38), and Loans from Holders of Non-controlling Interests (note 39) are disclosed in the respective notes.

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risks respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 45% and 80% (2021: 45% and 75%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2022, 70% (2021: 70%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2022, it is estimated that a 100 basis points increase/100 basis points decrease in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and decrease/increase the Group's retained profits by approximately HK$6 million/ HK$7 million. Other components of consolidated equity would increase/decrease by approximately HK$144 million/HK$145 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonably possible change in interest rates over the period until the next annual financial period.

In 2021, a similar analysis was performed based on the assumption of a 100 basis points increase/25 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and increase/decrease the Group's retained profits by approximately HK$76 million/ HK$15 million. Other components of consolidated equity would increase/decrease by approximately HK$99 million/HK$14 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as investment and procurement activities outside Hong Kong.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt at the parent company level as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements outside Hong Kong. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Company would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

30 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 20E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of the reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its consolidated statement of financial position. As at the end of the reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Group also manages and controls its exposure to credit risk in respect of receivables as stated in note 32.

31 Stores and Spares

As at 31 December 2022, stores and spares net of provision for obsolete stock of HK$25 million (2021: HK$23 million) amounted to HK$2,261 million (2021: HK$2,129 million), of which HK$1,607 million (2021: HK$1,452 million) is expected to be consumed within 1 year and HK$654 million (2021: HK$677 million) is expected to be consumed after 1 year. Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

32 Debtors and Other Receivables

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 32(ii) below) is collected either through Octopus Cards and QR code with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 30 days.

(ii) In respect of the High Speed Rail, tickets are sold by the Company and other Mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) Fare revenue from SZL4 is collected either through Shenzhen Tong Cards or QR code payment with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTRX in Sweden is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month. Service fees from Macao Light Rapid Transit Taipa Line are billed monthly with due dates in accordance with the terms of the service agreement.

(iv) Franchise revenue in Australia is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Sweden is collected in the transaction month with the remainder being collected in the following month. Concession revenue for London Elizabeth Line is collected once every 4 weeks.

(v) Rentals, advertising and telecommunication service fees are billed monthly with due dates ranging from immediately due to 60 days. Tenants of the Group's investment properties and station kiosks are generally required to pay three to six months' rental deposit upon the signing of lease agreements.

32 Debtors and Other Receivables *(continued)*

(vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vii) Consultancy service income is billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(viii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(ix) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors by due dates is analysed as follows:

in HK$ million	**2022**	2021
Amounts not yet due	**3,715**	3,779
Overdue by within 30 days	**210**	283
Overdue by more than 30 days but within 60 days	**74**	62
Overdue by more than 60 days but within 90 days	**27**	34
Overdue by more than 90 days	**284**	139
Total debtors	**4,310**	4,297
Other receivables and contract assets	**9,579**	10,500
	13,889	14,797

Included in other receivables as at 31 December 2022 was HK$2,962 million (2021: HK$4,300 million) in respect of property development profit in Hong Kong distributable from stakeholding funds and receivables from property purchasers based on the terms of the development agreements and sales and purchase agreements.

In addition, the Company purchased the tax reserve certificates of Hong Kong Profits Tax in respect of certain payments relating to the Rail Merger. Details are set out in note 16A(ii).

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR") at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The disposal was completed on 10 July 2017 and consequently a prepayment is recognised on the consolidated statement of financial position. A performance bond in the amount of RMB1.6 billion (HK$1.8 billion) issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

The Group's exposure to credit risk on debtors and other receivables mainly relates to debtors relating to rental receivables in Hong Kong and franchise fee/project fee receivables outside of Hong Kong. Given the Group's policy is to receive rental deposits from tenants in Hong Kong and the debtors in relation to the franchise fee/project fee receivables outside of Hong Kong are government related entities, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2022, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$4,735 million (2021: HK$4,910 million) which were expected to be recovered after more than one year. The nominal values less credit losses are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	**2022**	2021
Australian dollars	**8**	8
Renminbi	**59**	75
United States dollars	**20**	17

33 Amounts Due from Related Parties

in HK$ million	2022	2021
Amounts due from:		
– HKSAR Government	**1,017**	757
– KCRC	**4,157**	3,507
– associates	**255**	120
	5,429	4,384

As at 31 December 2022, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line, reimbursement of the fare revenue difference in relation to the "Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities", agency fee receivables and reimbursable costs in respect of West Rail property development (note 24C), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail and Shatin to Central Link.

Given the amounts due from related parties mainly related to HKSAR Government and government related entity, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2022, all amounts due from related parties were expected to be recovered within one year except for HK$2,788 million (2021: HK$2,273 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

34 Cash, Bank Balances and Deposits

in HK$ million	2022	2021
Deposits with banks and other financial institutions	**9,369**	15,769
Cash at banks and on hand	**6,765**	5,201
Cash, bank balances and deposits	**16,134**	20,970
Less: Bank deposits with more than three months to maturity when placed or pledged deposits (note 35E)	**(4,175)**	(10,218)
Less: Structured bank deposits	**(1,718)**	–
Cash and cash equivalents in the consolidated statement of cash flows	**10,241**	10,752

Included in cash, bank balance and deposits in the consolidated statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2022	2021
Australian dollars	**71**	26
Euros	**24**	13
Japanese yen	**770**	826
Pound sterling	**3**	2
Renminbi	**32**	14
United States dollars	**193**	321

35 Loans and Other Obligations

A By Type

in HK$ million	2022 Carrying amount	2022 Fair value	2022 Repayable amount	2021 Carrying amount	2021 Fair value	2021 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2023 to 2047 (2021: due during 2023 to 2047)	**20,206**	**18,797**	**20,680**	21,654	23,468	21,715
Unlisted:						
Debt issuance programme notes due during 2023 to 2055 (2021: due during 2022 to 2055)	**20,588**	**20,063**	**21,365**	15,373	17,634	15,792
Total capital market instruments	**40,794**	**38,860**	**42,045**	37,027	41,102	37,507
Bank loans	**3,773**	**3,773**	**3,773**	3,501	3,501	3,501
Lease liabilities	**1,113**	**1,117**	**1,113**	1,026	1,060	1,026
Others	**574**	**574**	**574**	548	603	548
Loans and other obligations	**46,254**	**44,324**	**47,505**	42,102	46,266	42,582
Short-term loans	**1,592**	**1,592**	**1,592**	1,650	1,650	1,650
Total	**47,846**	**45,916**	**49,097**	43,752	47,916	44,232

Others include non-defeased obligations under lease out/lease back transaction (note 20E).

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments. The carrying amounts of short-term loans approximated their fair values. Details of the fair value measurement are disclosed in note 43.

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

in million	Before hedging activities 2022	Before hedging activities 2021	After hedging activities 2022	After hedging activities 2021
Australian dollars	**431**	431	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
Renminbi	**3,840**	3,610	**–**	–
United States dollars	**2,230**	2,230	**–**	–

35 Loans and Other Obligations *(continued)*

B By Repayment Terms

in HK$ million	2022 Capital market instruments	2022 Bank loans	2022 Lease liabilities	2022 Others	2022 Total	2021 Capital market instruments	2021 Bank loans	2021 Lease liabilities	2021 Others	2021 Total
Loans and other obligations										
Amounts repayable beyond 5 years	**22,235**	**1,289**	**203**	**–**	**23,727**	23,260	938	9	–	24,207
Amounts repayable within a period of between 2 and 5 years	**9,929**	**688**	**204**	**574**	**11,395**	7,271	667	141	548	8,627
Amounts repayable within a period of between 1 and 2 years	**7,155**	**148**	**202**	**–**	**7,505**	1,226	1,735	299	–	3,260
Amounts repayable within 1 year	**2,726**	**1,648**	**504**	**–**	**4,878**	5,750	161	577	–	6,488
	42,045	**3,773**	**1,113**	**574**	**47,505**	37,507	3,501	1,026	548	42,582
Short-term loans	**–**	**1,592**	**–**	**–**	**1,592**	–	1,650	–	–	1,650
	42,045	**5,365**	**1,113**	**574**	**49,097**	37,507	5,151	1,026	548	44,232
Less: Unamortised discount/ premium/finance charges outstanding	**(246)**	**–**	**–**	**–**	**(246)**	(266)	–	–	–	(266)
Adjustment due to fair value change of financial instruments	**(1,005)**	**–**	**–**	**–**	**(1,005)**	(214)	–	–	–	(214)
Total carrying amount of debt	**40,794**	**5,365**	**1,113**	**574**	**47,846**	37,027	5,151	1,026	548	43,752

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2022 and 2021 comprise:

in HK$ million	2022 Principal amount	2022 Net consideration received	2021 Principal amount	2021 Net consideration received
Debt issuance programme notes	**10,288**	**10,282**	5,225	5,225

During the year ended 31 December 2022, the Company issued RMB510 million (HK$571 million) of listed debt securities (2021: RMB2,600 million (HK$3,097 million)), and HK$8,193 million and RMB1,320 million (HK$1,524 million) of unlisted debt securities in the respective currency (2021: HK$1,418 million and RMB600 million (HK$710 million) in the respective currency).

During the year ended 31 December 2022, the Group redeemed RMB1,350 million (HK$1,606 million) of its listed debt securities and redeemed HK$3,848 million (2021: HK$nil) and RMB250 million (HK$296 million) of its unlisted debt securities in the respective currency (2021: HK$2,813 million, RMB720 million (HK$783 million) and USD60 million (HK$465 million) in the respective currency).

As at 31 December 2022 and 2021, there were outstanding debt securities issued by a wholly-owned subsidiary, MTR Corporation (C.I.) Limited ("MTRCI"). The obligations of the debt securities issued by MTRCI are direct, unsecured and unsubordinated to the other unsecured obligations of MTRCI which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

35 Loans and Other Obligations *(continued)*

D Lease Liabilities

At 31 December 2022 and 2021, the Group had lease liabilities as follows:

	2022		2021	
in HK$ million	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	**504**	**519**	577	603
After 1 year but within 2 years	**202**	**214**	299	317
After 2 years but within 5 years	**204**	**220**	141	149
After 5 years	**203**	**219**	9	9
	609	**653**	449	475
	1,113	**1,172**	1,026	1,078
Less: Total future interest expenses		**(59)**		(52)
Present value of lease obligations		**1,113**		1,026

E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2022 and 2021.

(ii) As at 31 December 2022, MTR Corporation (Shenzhen) Limited 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 RMB856 million (HK$960 million) bank loan facility granted to it.

(iii) As at 31 December 2022, MTR CREC Metro (Shenzhen) Company Ltd. has pledged the fare and non-fare revenue in relation to Shenzhen Metro Line 13 as security for the RMB3.20 billion (HK$3.59 billion) bank loan facility granted to it.

Save as disclosed above and those disclosed elsewhere in the consolidated financial statements, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2022.

36 Creditors, Other Payables and Provisions

in HK$ million	2022	2021
Creditors and accrued charges	**19,583**	18,620
Other payables, deferred income and provisions (notes 22B(b)(ii)&(c)(ii))	**47,522**	18,583
Contract liabilities	**2,587**	2,874
	69,692	40,077

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	2022	2021
Due within 30 days or on demand	**8,143**	7,631
Due after 30 days but within 60 days	**2,012**	1,754
Due after 60 days but within 90 days	**886**	730
Due after 90 days	**4,544**	4,088
	15,585	14,203
Rental and other refundable deposits	**2,459**	2,818
Accrued employee benefits	**1,539**	1,599
	19,583	18,620

The Group's general payment terms are one to two months from the invoice date.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

36 Creditors, Other Payables and Provisions *(continued)*

A Creditors and Accrued Charges *(continued)*

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2022	2021
Australian dollars	**13**	25
Canadian dollars	**–**	5
Euros	**14**	92
Japanese yen	**280**	50
Pound sterling	**9**	43
Renminbi	**90**	84
United States dollars	**27**	102

B Other Payables, Deferred Income and Provisions

Other payables included contract retentions. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, as well as the unutilised government grant of HK$31,522 million (2021: HK$343 million).

C Contract Liabilities

Movements in contract liabilities of the Group during the year ended 31 December are as follows:

in HK$ million	2022	2021
Balance as at 1 January	**2,874**	2,444
Increase in contract liabilities as a result of billing in advance	**386**	1,283
Decrease in contract liabilities as a result of revenue recognised during the year that was included in the contract liabilities at the beginning of the year	**(576)**	(859)
Exchange differences	**(97)**	6
Balance as at 31 December	**2,587**	2,874

Contract liabilities mainly arise from construction contracts and other project arrangements, when the Group receives a deposit before the activity commences and until the revenue recognised on the project exceeds the amount of the deposit received. The payment terms are negotiated on a case by case basis with customers.

D As at 31 December 2022, except for unutilised government grant included in deferred income, contract liabilities and others of HK$52,075 million (2021: HK$21,369 million) which were expected to be settled or recognised as income after one year, all remaining creditors and other payables were expected to be settled or recognised as income within one year. The amounts due after one year for the Group as at 31 December 2022 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid/refunded within three years. The Group considers the effect of discounting would be immaterial.

37 Amounts Due to Related Parties

in HK$ million	2022	2021
Amounts due to:		
– HKSAR Government	**145**	86
– KCRC	**387**	333
– associates	**60**	60
	592	479

The amount due to the HKSAR Government as at 31 December 2022 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2022 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

38 Obligations under Service Concession

Movements of the Group's obligations under service concessions are as follows:

in HK$ million	2022	2021
Balance as at 1 January	**10,231**	10,295
Less: Net amount repaid during the year	**(75)**	(70)
Exchange differences	**(14)**	6
Balance as at 31 December	**10,142**	10,231

The outstanding balances as at 31 December 2022 and 2021 are repayable as follows:

	2022			2021		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	**9,689**	**13,016**	**22,705**	9,806	13,682	23,488
Amounts repayable within a period of between 2 and 5 years	**289**	**1,995**	**2,284**	272	2,015	2,287
Amounts repayable within a period of between 1 and 2 years	**84**	**678**	**762**	79	683	762
Amounts repayable within 1 year	**80**	**682**	**762**	74	688	762
	10,142	**16,371**	**26,513**	10,231	17,068	27,299

39 Loans from Holders of Non-controlling Interests

Loans from holders of non-controlling interests as at 31 December 2022 represents the portion of total shareholder loan of AUD60 million (HK$317 million) (2021: AUD60 million (HK$340 million)) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

40 Income Tax in the Consolidated Statement of Financial Position

A Current taxation in the consolidated statement of financial position includes:

in HK$ million	2022	2021
Balance relating to Hong Kong Profits Tax	**2,833**	2,359
Balance relating to tax outside Hong Kong	**120**	22
	2,953	2,381

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2022						
Balance as at 1 January 2022	**13,669**	**716**	**(463)**	**1**	**(104)**	**13,819**
Charged/(credited) to profit or loss	**359**	**17**	**(126)**	**–**	**(44)**	**206**
Charged/(credited) to other comprehensive income	**–**	**9**	**(38)**	**17**	**–**	**(12)**
Exchange differences	**5**	**10**	**53**	**–**	**13**	**81**
Balance as at 31 December 2022	**14,033**	**752**	**(574)**	**18**	**(135)**	**14,094**
2021						
Balance as at 1 January 2021	13,365	723	(314)	29	(148)	13,655
Charged/(credited) to profit or loss	302	(30)	(225)	–	36	83
Charged/(credited) to other comprehensive income	–	23	43	(28)	–	38
Exchange differences	2	–	33	–	8	43
Balance as at 31 December 2021	13,669	716	(463)	1	(104)	13,819

in HK$ million	2022	2021
Net deferred tax assets	**(606)**	(599)
Net deferred tax liabilities	**14,700**	14,418
	14,094	13,819

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$844 million (2021: HK$416 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

41 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2022		2021	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,193,462,514**	**60,184**	6,180,927,873	59,666
Shares issued in respect of scrip dividend of 2021/2020 final ordinary dividend	**5,772,961**	**246**	8,510,398	369
Shares issued in respect of scrip dividend of 2022/2021 interim ordinary dividend	**2,825,309**	**113**	1,676,743	74
Vesting of shares of Executive Share Incentive Scheme	**–**	**4**	–	3
Shares issued under the share option scheme	**–**	**–**	2,347,500	72
At 31 December	**6,202,060,784**	**60,547**	6,193,462,514	60,184

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

B Shares Held for Executive Share Incentive Scheme

During the year ended 31 December 2022, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Group (note 44(ii)). In this regard, 132,000 Restricted Shares were awarded and accepted by a grantee on 1 April 2022, and a total of 240,700 Performance Shares and 2,507,250 Restricted Shares were awarded and accepted by the grantees on 8 April 2022 (2021: a total of 1,558,050 Performance Shares and 1,955,950 Restricted Shares were awarded and accepted by the grantees on 8 April 2021). The fair values of these Award Shares were HK$42.35 per share at 1 April 2022 and HK$42.05 per share at 8 April 2022 (2021: HK$44.05 per share at 8 April 2021).

During the year ended 31 December 2022, 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 2,560,000 Ordinary Shares (2021: 2,650,000 Ordinary Shares) of the Company for a total consideration of approximately HK$109 million (2021: HK$116 million). During the year ended 31 December 2022, 62,581 Ordinary Shares (2021: 45,520 Ordinary Shares) of the Company were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$3 million (2021: HK$2 million).

During the year ended 31 December 2022, 2,172,518 Award Shares (2021: 2,996,112 Award Shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$95 million (2021: HK$135 million). During the year ended 31 December 2022, HK$4 million (2021: HK$3 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2022, 255,491 award shares (2021: 878,626 award shares) were lapsed/forfeited.

As at 31 December 2022, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 6,097,136 shares (2021: 5,647,073 shares) held in trust under the Executive Share Incentive Scheme (excluding shares vested but not yet transferred to awardees).

C New Shares Issued and Fully Paid Up during the year ended 31 December 2021 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	2,347,500	28.65

As at 31 December 2021, all outstanding share options granted under the 2007 Share Option Scheme had been exercised and/or lapsed.

41 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management *(continued)*

D Reserves

The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied buildings (note 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2V(ii).

The employee share-based capital reserve comprises the share-based payment expenses recognised in respect of award shares under the Executive Share Incentive Scheme granted which are yet to be vested (2021: also including share options under the share option scheme which are yet to be exercised), as explained in the accounting policy under note 2W(iii).

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities. The reserve is dealt with in accordance with the accounting policy set out in note 2AC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on fair value measurement of investment properties of HK$65,237 million (2021: HK$66,033 million) included in retained profits of the Company are non-distributable as they do not constitute realised profits. As at 31 December 2022, the Company considers that the total amount of reserves of the Company available for distribution to shareholders amounted to HK$43,684 million (2021: HK$41,830 million).

Included in the Group's retained profits as at 31 December 2022 is an amount of HK$3,837 million (2021: HK$3,263 million), being the retained profits attributable to the associates and joint ventures.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The FSI of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2022, representing 74.72% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated based on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, obligations under service concession and loans from holders of non-controlling interests net of cash, bank balance and deposits (2021: also net of bank medium-term notes). As at 31 December 2022, the Group's net debt-to-equity ratio is 23.3% (2021: 18.1%).

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the SZL4 project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. All the Group's subsidiaries in Sweden are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2022, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

41 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management *(continued)*

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

				Other reserves				
in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total equity
2022								
Balance as at 1 January 2022	50	**60,184**	**(245)**	**3,781**	**(172)**	**124**	**108,035**	**171,707**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**10,056**	**10,056**
Other comprehensive income/(loss) for the year		**–**	**–**	**43**	**110**	**–**	**(190)**	**(37)**
Total comprehensive income for the year		**–**	**–**	**43**	**110**	**–**	**9,866**	**10,019**
Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**3**	**–**	**–**	**3**
2021 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(6,317)**	**(6,317)**
Shares issued in respect of scrip dividend of 2021 final ordinary dividend		**246**	**(2)**	**–**	**–**	**–**	**2**	**246**
2022 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(2,604)**	**(2,604)**
Shares issued in respect of scrip dividend of 2022 interim ordinary dividend		**113**	**(1)**	**–**	**–**	**–**	**1**	**113**
Shares purchased for Executive Share Incentive Scheme		**–**	**(109)**	**–**	**–**	**–**	**–**	**(109)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		**4**	**95**	**–**	**–**	**(96)**	**(3)**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**118**	**–**	**118**
Balance as at 31 December 2022	50	**60,547**	**(262)**	**3,824**	**(59)**	**146**	**108,980**	**173,176**
2021								
Balance as at 1 January 2021		59,666	(262)	3,662	(52)	181	106,334	169,529
Profit for the year		–	–	–	–	–	9,093	9,093
Other comprehensive income/(loss) for the year		–	–	119	(117)	–	217	219
Total comprehensive income/(loss) for the year		–	–	119	(117)	–	9,310	9,312
Amounts transferred from hedging reserve to initial carrying amount of hedged items		–	–	–	(3)	–	–	(3)
2020 final ordinary dividend		–	–	–	–	–	(6,060)	(6,060)
Shares issued in respect of scrip dividend of 2020 final ordinary dividend		369	(1)	–	–	–	1	369
2021 interim ordinary dividend		–	–	–	–	–	(1,548)	(1,548)
Shares issued in respect of scrip dividend of 2021 interim ordinary dividend		74	(1)	–	–	–	1	74
Shares purchased for Executive Share Incentive Scheme		–	(116)	–	–	–	–	(116)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		3	135	–	–	(135)	(3)	–
Employee share-based payments		–	–	–	–	83	–	83
Employee share options exercised		72	–	–	–	(5)	–	67
Balance as at 31 December 2021	50	60,184	(245)	3,781	(172)	124	108,035	171,707

42 Other Cash Flows Information

A Reconciliation of the Group's operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment from recurrent businesses to cash generated from operations is as follows:

in HK$ million	2022	2021
Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment from recurrent businesses	7,852	8,019
Adjustments for non-cash items	527	169
Operating profit before working capital changes	8,379	8,188
(Increase)/decrease in debtors and other receivables	(307)	813
Increase in stores and spares	(185)	(153)
Decrease in creditors, other payables and provision	(57)	(515)
Cash generated from operations	7,830	8,333

B Reconciliation of the Group's liabilities arising from financing activities is as follows:

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Short-term loans	Interest and finance charges payables	Total
2022							
At 1 January 2022	37,027	3,501	1,026	548	1,650	139	43,891
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	10,287	3,053	–	–	28,306	–	41,646
– Repayment of loans and capital market instruments	(5,750)	(2,549)	–	–	(28,430)	–	(36,729)
– Capital element of lease rentals paid	–	–	(149)	–	–	–	(149)
– Interest and finance charges paid	–	–	–	–	–	(961)	(961)
	4,537	504	(149)	–	(124)	(961)	3,807
Exchange differences	–	(159)	(51)	–	(7)	–	(217)
Other changes:							
– Adjustment due to fair value change of financial instruments	(770)	–	–	–	–	–	(770)
– Recognition of lease liabilities	–	–	287	–	–	–	287
– Interest and finance charges	–	–	–	26	–	1,027	1,053
– Reclassification	–	(73)	–	–	73	–	–
	(770)	(73)	287	26	73	1,027	570
At 31 December 2022	40,794	3,773	1,113	574	1,592	205	48,051

42 Other Cash Flows Information *(continued)*

B Reconciliation of the Group's liabilities arising from financing activities is as follows *(continued)*:

in HK$ million	Loans and other obligations: Capital market instruments	Loans and other obligations: Bank loans	Loans and other obligations: Lease liabilities	Loans and other obligations: Others	Short-term loans	Interest and finance charges payables	Total
2021							
At 1 January 2021	35,996	9,287	1,180	520	3,357	150	50,490
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	5,225	4,381	–	–	6,926	–	16,532
– Repayment of loans and capital market instruments	(4,061)	(10,210)	–	–	(8,638)	–	(22,909)
– Capital element of lease rentals paid	–	–	(206)	–	–	–	(206)
– Interest and finance charges paid	–	–	–	–	–	(910)	(910)
	1,164	(5,829)	(206)	–	(1,712)	(910)	(7,493)
Exchange differences	1	42	(57)	3	–	–	(11)
Other changes:							
– Adjustment due to fair value change of financial instruments	(134)	6	–	–	–	–	(128)
– Recognition of lease liabilities	–	–	109	–	–	–	109
– Interest and finance charges	–	–	–	25	–	899	924
– Reclassification	–	(5)	–	–	5	–	–
	(134)	1	109	25	5	899	905
At 31 December 2021	37,027	3,501	1,026	548	1,650	139	43,891

C Total Cash Outflows for Leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

in HK$ million	**2022**	2021
Within operating cash flows	**46**	41
Within financing cash flows	**264**	257
	310	298

These amounts relate to the leases of the following:

in HK$ million	**2022**	2021
Buildings	**214**	193
Plant and equipment	**116**	105
	330	298

43 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties and self-occupied buildings measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied buildings were revalued as at 31 December 2022 and 2021 by independent qualified surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2022 was 3.5% – 5.75% (2021: 3.5% – 5.75%) with a weighted average of 4.8% (2021: 4.8%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2022 are shown in note 20A. All the fair value adjustment related to remeasurement on investment properties held as at 31 December 2022 was recognised under "Loss from fair value measurement of investment properties" in the consolidated statement of profit or loss.

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

Included in the Group's investments in securities as at 31 December 2022, there were HK$290 million (2021: HK$272 million) of listed debt securities carried at fair value using Level 1 measurements and HK$669 million (2021: HK$708 million) of unlisted equity securities carried at fair value using Level 3 measurements (2021: there were also HK$499 million of investment in bank medium-term notes carried at fair value using Level 2 measurements).

The Group's derivative financial instruments were carried at fair value using Level 2 measurements. As at 31 December 2022, the fair values of derivative financial assets and derivative financial liabilities were HK$216 million (2021: HK$363 million) and HK$1,104 million (2021: HK$561 million) respectively.

Included in the Group's cash, bank balances and deposits as at 31 December 2022, there were HK$1,718 million (2021: HK$nil) of structured bank deposits carried at fair value using Level 3 measurements. The fair values of structured bank deposits are based on the statements provided by the counterparty financial institutions.

43 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments (2021: also investment in bank medium-term notes). For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies and the cross currency basis curves of the respective currency pairs at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

The fair value of the Group's investments in unlisted equity securities is determined based on the adjusted net asset method. The significant unobservable input includes the fair value of the individual assets less liabilities (recognised and unrecognised). The fair value measurement is positively correlated to the fair value of the individual assets less liabilities (recognised and unrecognised). The movements of the investments in unlisted equity securities during the year are as follows:

in HK$ million	**2022**	2021
At 1 January	**708**	254
Additions	**39**	421
Disposal	**(57)**	–
Changes in fair value recognised in profit or loss	**38**	25
Exchange differences recognised in other comprehensive income	**(58)**	8
At 31 December	**670**	708

As at 31 December 2022, it is estimated that a 5-percent increase/decrease (2021: 5-percent increase/decrease) in fair value of the total individual assets less liabilities (recognised and unrecognised), with all other variables held constant, would increase/decrease the Group's profit after tax by approximately HK$25 million/HK$25 million (2021: HK$27 million/HK$27 million).

During the year ended 31 December 2022, the additions to structured bank deposits amounted to HK$1,718 million (2021: HK$nil). As at 31 December 2022, the fair value of structured bank deposits was HK$1,718 million (2021: HK$nil). The fair value is determined by discounting the estimated future cash inflows considering the interest rates and exchange rates linked to the deposits. Sensitivity analysis for structured bank deposits with fair value measurement are not disclosed as the effect is considered insignificant.

At the end of each interim and annual reporting period, valuations are performed for the financial instruments which are categorised into Level 3 of the fair value hierarchy, and the valuation assumptions and results are reviewed by the Group's management accordingly.

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2022 and 2021 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 31 December 2022		At 31 December 2021	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**40,794**	**38,860**	37,027	41,102
Other obligations	**1,687**	**1,691**	1,574	1,663

The above fair value measurement is categorised as Level 2. The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

44 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2022 and 2021, the Group maintained the Executive Share Incentive Scheme (2021: all outstanding share options granted under the 2007 Share Option Scheme had been exercised and/or lapsed as at 31 December 2021). Details of the schemes are as follows:

(i) 2007 Share Option Scheme

Following the expiry of the New Joiners Share Option Scheme in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The 2007 Option Scheme expired in June 2014 and no options have been granted thereafter. All the share options granted were vested prior to 2018.

Movements in the number of share options outstanding and their related weighted average exercise prices in 2021 were as follows:

	2021	
	Number of share options	Weighted average exercise price HK$
Outstanding as at 1 January*	2,347,500	28.650
Exercised during the year*	(2,347,500)	28.650
Outstanding as at 31 December	–	–
Exercisable as at 31 December	–	–

* Out of the outstanding share options as at 1 January 2021 and exercised share options during the year ended 31 December 2021, 47,500 options were included and exercised by a Member of the Executive Directorate.

The weighted average closing price in respect of the share options exercised during the year ended 31 December 2021 was HK$44.516.

During the year ended 31 December 2021, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme.

44 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded to selective eligible employees. Performance Shares are awarded to eligible employees which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions as determined by the Remuneration Committee from time to time.

Subject to the Scheme Rules, the Remuneration Committee shall determine the vesting criteria and conditions or periods for the Award Shares to be vested, subject to review from time to time. An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The Executive Share Incentive Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust Deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

The following awards of shares with vesting period falling in the years ended 31 December 2022 and 2021 were offered to Members of the Executive Directorate and selected employees of the Group under the Executive Share Incentive Scheme:

	Number of Award Shares granted		Fair value per share	Vesting period	
Date of award	Restricted Shares	Performance Shares	HK$	From	To
10 April 2018	2,208,950	1,772,900	42.80	3 April 2018	3 April 2021 (Restricted Shares) 3 April 2021 (Performance Shares)
1 April 2019	120,000	–	48.90	1 April 2019	31 March 2022
8 April 2019	1,942,150	244,650	48.40	1 April 2019	1 April 2022 (Restricted Shares) 3 April 2021 (Performance Shares)
8 April 2020	2,334,750	6,950	41.90	1 April 2020	1 April 2023 (Restricted Shares) 3 April 2021 (Performance Shares)
8 April 2021	1,955,950	1,558,050	44.05	1 April 2021	1 April 2024 (Restricted Shares) 1 April 2024 (Performance Shares)
1 April 2022	**132,000**	**–**	**42.35**	**1 April 2022**	**31 March 2025**
8 April 2022	**2,507,250**	**240,700**	**42.05**	**8 April 2022**	**1 April 2025 (Restricted Shares)** **1 April 2024 (Performance Shares)**

Movement in the number of Award Shares outstanding was as follows:

	2022	2021
	Number of Award Shares	Number of Award Shares
Outstanding as at 1 January	**5,372,867**	5,733,605
Awarded during the year	**2,879,950**	3,514,000
Vested during the year	**(2,172,518)**	(2,996,112)
Forfeited during the year	**(255,491)**	(878,626)
Outstanding as at 31 December	**5,824,808**	5,372,867

44 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Award Shares outstanding at 31 December 2022 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
8 April 2020	0.25	581,732
8 April 2021	1.25	1,087,626
1 April 2022	**2.25**	**132,000**
8 April 2022	**2.25**	**2,323,350**
Performance Shares		
8 April 2021	1.25	1,467,150
8 April 2022	**1.25**	**232,950**

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2022, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$118 million (2021: HK$83 million) (note 10A).

45 Retirement Schemes

The Group operates or participates in a number of retirement schemes in Hong Kong, the Mainland China, Macao, the United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2022, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted with an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme had been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times years of service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2022, the total number of members was 2,571 (2021: 2,844). In 2022, members contributed HK$55 million (2021: HK$59 million) and the Company contributed HK$25 million (2021: HK$36 million) to the MTR Retirement Scheme. The fair value of scheme assets of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2022 was HK$7,500 million (2021: HK$9,294 million).

The actuarial valuations as at 31 December 2022 and 2021 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Towers Watson Hong Kong Limited ("WTW"), which is represented by Ms Wing Lui, a Fellow of the Society of Actuaries of the United States of America, using the Projected Unit Credit Method. The results of the valuation are shown in note 46.

The actuarial valuations as at 31 December 2022 and 2021 to determine the cash funding requirements were also carried out by Ms Wing Lui of WTW using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2022 included a long-term rate of investment return net of salary increases of 2.50% (2021: 0.50%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement.

As at the valuation date of 31 December 2022, under the situation that the value of members' voluntary contributions was included:

(a) the MTR Retirement Scheme was solvent, covering 100.2% (2021: 113.4%) of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency surplus of HK$19 million; and

(b) on the assumption that the MTR Retirement Scheme would continue in force, its value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 100.2% (2021: 113.2%), representing a past service surplus of HK$16 million.

45 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted with an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, investment returns on these contributions, together with year of services. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

As at 31 December 2022, the total number of employees participating in the MTR Provident Fund Scheme was 10,397 (2021: 10,411). In 2022, total members' contributions were HK$164 million (2021: HK$158 million) and total contributions from the Company were HK$374 million (2021: HK$366 million). HK$48 million of contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2021: HK$nil). As at 31 December 2022, forfeited contributions of HK$70 million (2021: HK$99 million) were available to reduce the contributions payable in future years. The net asset value as at 31 December 2022 was HK$6,583 million (2021: HK$7,804 million).

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2022, the total number of employees participating in the MTR MPF Scheme was 4,773 (2021: 4,660). In 2022, total members' contributions were HK$51 million (2021: HK$47 million) and total contribution from the Company were HK$55 million (2021: HK$51 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2021: HK$nil). As at 31 December 2022, there were no forfeited contributions (2021: HK$nil) available to reduce the contributions payable in future years.

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

As at 31 December 2022, the total number of employees participating in the KCRC MPF Scheme was 257 (2021: 290). In 2022, total members' contributions were HK$3 million (2021: HK$4 million) and total contribution from the Company were HK$3 million (2021: HK$4 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2021: HK$nil). As at the end of the reporting period, no forfeited contributions (2021: HK$nil) available to reduce the contributions payable in future years.

B Retirement Schemes for Employees of Mainland China and Overseas Offices of the Company and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective Mainland China and overseas offices or subsidiary companies or in accordance with respective applicable labour regulations.

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2022, total number of the Group's employees participating in this scheme was 451 (2021: 503). In 2022, total members' contributions were HK$20 million (2021: HK$23 million) and total contribution from the Group was HK$60 million (2021: HK$69 million).

Certain employees of the Group's Swedish subsidiaries are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2022, total number of the Group's employees participating in this scheme was 717 (2021: 754). In 2022, total contribution from the Group was HK$17 million (2021: HK$22 million).

45 Retirement Schemes *(continued)*

B Retirement Schemes for Employees of Mainland China and Overseas Offices of the Company and Subsidiaries *(continued)*

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2022, total number of the Group's employees participating in this scheme was 820 (2021: 791). In 2022, total members' contributions were HK$33 million (2021: HK$33 million) and total contribution from the Group was HK$50 million (2021: HK$50 million). Pension expense of HK$128 million (2021: HK$95 million) was recognised in profit or loss and actuarial gain of HK$72 million (2021: HK$36 million) was recognised in the consolidated statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland China, Macao or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland China, Macao or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2022, the total number of employees of the Group participating in these schemes was 16,717 (2021: 16,248). In 2022, total members' contributions were HK$122 million (2021: HK$113 million) and total contribution from the Group was HK$683 million (2021: HK$631 million). During the years ended 31 December 2022 and 2021, the amount of contributions forfeited in accordance to the schemes' rules, if applicable, is not significant.

46 Defined Benefit Retirement Scheme

The Company makes contributions to and recognises defined benefit liabilities in respect of the MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 45). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A Amounts Recognised in the Consolidated Statement of Financial Position

in HK$ million	**2022**	2021
Present value of defined benefit obligations	**(7,488)**	(8,887)
Fair value of scheme assets	**7,500**	9,294
Net assets	**12**	407

The net assets are recognised under "Debtors and other receivables" in the consolidated statement of financial position. A portion of the above obligations is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$75 million in contribution to the MTR Retirement Scheme in 2023.

46 Defined Benefit Retirement Scheme *(continued)*

B Scheme Assets

in HK$ million	2022	2021
Equity securities		
– Financial institutions	**223**	283
– Non-financial institutions	**2,016**	2,456
	2,239	2,739
Bonds		
– Government	**1,448**	1,339
– Non-government	**1,371**	2,234
	2,819	3,573
Cash	**2,645**	3,207
	7,703	9,519
Voluntary units	**(203)**	(225)
	7,500	9,294

The scheme assets did not include any ordinary shares of the Company as at 31 December 2022 and 2021. Also, there were no investment in other shares and debt securities of the Company as at 31 December 2022 and 2021. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study performed in 2021, the investment strategy was changed in 2021 to about 30% of the scheme assets held in cash and the remaining 70% invested according to a long-term strategic asset allocation of 42.5% in equities and 57.5% in bonds. The 30% of the scheme assets held in cash will be used to pay benefits and expected to be depleted within three years from 2021. After depletion, the long-term strategy asset allocation is expected to return to 42.5% in equities and 57.5% in bonds and cash. There was no change in the investment strategy during the year ended 31 December 2022.

C Movements in the Present Value of the Defined Benefit Obligations

in HK$ million	2022	2021
At 1 January	**8,887**	9,517
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	**(55)**	17
– Actuarial (gains)/losses arising from demographic assumptions	**–**	–
– Actuarial gains arising from changes in financial assumptions	**(713)**	(5)
	(768)	12
Members' contributions paid to the scheme	**55**	59
Benefits paid by the scheme	**(1,004)**	(1,031)
Current service cost	**196**	226
Interest cost	**122**	104
At 31 December	**7,488**	8,887

The weighted average duration of the present value of the defined benefit obligations was 4.5 years as at 31 December 2022 (2021: 5.3 years).

46 Defined Benefit Retirement Scheme *(continued)*

D Movements in Fair Value of Scheme Assets

in HK$ million	2022	2021
At 1 January	**9,294**	9,855
Company's contributions paid to the scheme	**25**	36
Members' contributions paid to the scheme	**55**	59
Benefits paid by the scheme	**(1,004)**	(1,031)
Administrative expenses paid from scheme assets	**(3)**	(5)
Interest income	**128**	108
Return on scheme assets, excluding interest income	**(995)**	272
At 31 December	**7,500**	9,294

E Expenses Recognised in Profit or Loss and Other Comprehensive Income

in HK$ million	2022	2021
Current service cost	**196**	226
Net interest on net defined benefit asset	**(6)**	(4)
Administrative expenses paid from scheme assets	**3**	5
	193	227
Less: Amount capitalised	**(42)**	(39)
Net amount recognised in profit or loss	**151**	188
Actuarial (gains)/losses	**(768)**	12
Return on scheme assets, excluding interest income	**995**	(272)
Amount recognised in other comprehensive income	**227**	(260)

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated statement of profit or loss.

F Significant Actuarial Assumptions and Sensitivity Analysis

	2022	2021
Discount rate	**4.78%**	1.49%
Future salary increase	**4.00%**	3.00%
Unit value increase	**6.50%**	3.50%

The below analysis shows how the present value of the defined benefit obligations as at 31 December would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2022		2021	
	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million
Discount rate	**(80)**	**82**	(113)	116
Future salary increase	**62**	**(59)**	84	(79)
Unit value increase	**22**	**(20)**	33	(30)

The above sensitivity analysis is based on the assumption that changes in these actuarial assumptions are not inter-correlated and therefore the sensitivity estimated does not take into account the correlations between the actuarial assumptions.

47 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 74.72% of the Company's issued share capital on trust for the HKSAR Government as at 31 December 2022, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related Party Disclosures*, and are identified separately in these consolidated financial statements.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an operating agreement which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 47C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("OA"), which is based on the then existing operating agreement referred to in note 47A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). A detailed description of the OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

D Other than the OA described in note 47C above, the Company also entered into principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger. These principal agreements are: (i) Merger Framework Agreement, (ii) Service Concession Agreement, (iii) Sale and Purchase Agreement, (iv) West Rail Agency Agreement, and (v) Property Package Agreements. For the year ended 31 December 2022, amount recoverable or invoiced by the Company under West Rail Agency Agreement is HK$53 million (2021: HK$61 million) and the net amounts payable or paid by the Company in relation to the Service Concession is HK$1,073 million (2021: HK$1,010 million).

The above agreements are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

E The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the High Speed Rail:

(i) An amendment operating agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that will apply to the High Speed Rail.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2022, net revenue received or receivable from KCRC in respect of the High Speed Rail amounted to HK$1,476 million (2021: HK$1,422 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

47 Material Related Party Transactions *(continued)*

F The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the Shatin to Central Link ("SCL"):

(i) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 11 February 2020, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the First Phase of the Tuen Ma Line.

(ii) A supplemental service concession agreement no. 2, which was entered into with KCRC on 11 February 2020, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the First Phase of the Tuen Ma Line and to prescribe the operational and financial requirements that will apply to the First Phase of the Tuen Ma Line.

(iii) An amendment operating agreement, a supplemental operating agreement and the Amendment No.1 to Memorandum on Performance Requirements, which were entered into with the HKSAR Government on 21 June 2021, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the Tuen Ma Line, being the first part of the SCL.

(iv) A supplemental service concession agreement no. 3, which was entered into with KCRC on 21 June 2021 and superseded and replaced the supplemental service concession agreement no. 2 dated 11 February 2020 (note 47F(ii)), to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the Tuen Ma Line, being the first part of the SCL, and to prescribe the operational and financial requirements that will apply to the Tuen Ma Line.

(v) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 10 May 2022, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the SCL as a whole.

(vi) A supplemental service concession agreement no. 4, which was entered into with KCRC on 10 May 2022 and superseded and replaced the supplemental service concession agreement no. 3 dated 21 June 2021 (note 47F(iv)), to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of SCL as a whole, and to prescribe the operational and financial requirements that will apply to the SCL as a whole.

During the year ended 31 December 2022, net revenue received or receivable from KCRC in respect of Tuen Ma Line and Shatin to Central Link under SSCA2-SCL and SSCA3-SCL amounted to HK$496 million (2021: net revenue received or receivable from KCRC in respect of Tuen Ma Line under SSCA1-SCL and SSCA2-SCL amounted to HK$205 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the agreements (iii) to (vi) above is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

G The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of HSR and SCL. Detailed description of the agreements are provided in notes 22A and 22B. In addition, an amount of HK$636 million was paid/payable to the HKSAR Government (net of amount received/receivable) in 2022 (2021: HK$263 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

47 Material Related Party Transactions *(continued)*

H On 23 September 2022, (i) the Company accepted the HKSAR Government's Land Exchange Offer for development of the Company's existing Siu Ho Wan depot and (ii) the Company also entered into the Project Agreement with the HKSAR Government for the financing, design, construction, pre-operation, operation and maintenance of the Oyster Bay Station to cater for the transportation needs of the new community, together referred to as Oyster Bay Project. The land exchange documents for the Oyster Bay Project was executed by both the Company and the HKSAR Government on 25 November 2022.

The Oyster Bay Project involves, inter alia, re-provision of the existing Siu Ho Wan depot and provision of property enabling works (including roof deck over the depot for top-side property development) to enable property development on the depot site, as well as the construction of a new station, Oyster Bay Station, to serve the future community.

During the year ended 31 December 2022, land premium of HK$8.6 billion was paid by the Company to the HKSAR Government for Oyster Bay Project. When determining the land premium for the Land Exchange, costs in relation to the construction of the new Oyster Bay Station, re-provision of the depot, property enabling works (including roof deck over the depot for top-side property development) and site formation were accepted by the HKSAR Government as deductible costs and were deducted from the land premium assessment on a full market basis for the Land Exchange. The amount deducted is accounted for as government grant and included in Creditors, Other Payables and Provisions (note 36B), after offsetting against the respective capital expenditure in Other Property, Plant and Equipment (note 20B), Railway Construction in Progress (note 23) and Property Development in Progress (note 24) during the year ended 31 December 2022.

I In connection with certain property developments along the railway system, the Company has been granted land lot by the HKSAR Government or allowed to proceed with the development at the following sites during the year:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Pak Shing Kok Ventilation Building	**27 April 2022**	**1,101**	**27 April 2022 and 8 July 2022**
Tung Chung Traction Substation	**9 August 2022**	**3,548**	**9 August 2022 and 20 October 2022**
Siu Ho Wan Depot	**23 September 2022**	**8,603**	**23 September 2022 and 21 November 2022**

J On 18 May 2018, the Company provided a sub-contractor warranty to the Hong Kong Airport Authority ("HKAA") as a result of obtaining a subcontract from a third party for the modification works of the existing Automated People Mover system at the Hong Kong International Airport ("System") for a seven-year period, effective from 25 September 2017 ("Subcontract"). The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System.

On 2 July 2020, the Company entered into a contract with the HKAA for the maintenance of the System for a seven-year period effective from 6 January 2021. In respect of the services provided, HK$133 million was recognised as consultancy income during the year ended 31 December 2022 (2021: HK$146 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

K During the year ended 31 December 2022, the Group incurred HK$94 million (2021: HK$99 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of OHL. OCL incurred HK$31 million (2021: HK$26 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL declared HK$300 million (2021: HK$178 million) and distributed HK$150 million (2021: HK$178 million) of dividends to the Group.

47 Material Related Party Transactions *(continued)*

L During the year ended 31 December 2022, MTR Corporation (Sydney) NRT Pty Ltd, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty Ltd, an associate of the Group, at a total amount of AUD1 million (HK$5 million) (2021: AUD3 million or HK$19 million). Metro Trains Sydney Pty Ltd also provided operations and maintenance services in respect of Sydney Metro North West to NRT Pty Ltd at a total amount of AUD110 million (HK$600 million) (2021: AUD103 million or HK$605 million) and mobilisation services in respect of Sydney Metro City & Southwest to NRT CSW Pty Ltd, an associate of the Group, at a total amount of AUD6 million (HK$34 million) (2021: AUD6 million or HK$35 million). MTR Corporation (Sydney) SMCSW Pty Limited also provided delivery of electrical and mechanical systems and rolling stock as well as integration of railway system services to NRT CSW Pty Ltd at a total amount of AUD407 million (HK$2,222 million) (2021: AUD233 million or HK$1,376 million).

M During the year ended 31 December 2022, the Group has provided delivery of software licenses as well as maintenance and support services to Beijing MTR Corporation Limited at a total amount of HK$25 million (2021: HK$nil).

N Other than those stated in notes 47A to 47M, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 33 and 37.

O The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 11A. In addition, Members of the Executive Directorate were granted award shares under the Executive Share Incentive Scheme. Details of the terms of these award shares are disclosed in note 11B and the Report of the Members of the Board. Their gross remuneration charged to the consolidated statement of profit or loss is summarised as follows:

in HK$ million	2022	2021
Short-term employee benefits	**94.2**	80.1
Post-employment benefits	**6.5**	6.1
Share-based payments	**29.9**	14.3
	130.6	100.5

The above remuneration is included in staff costs and related expenses disclosed in note 10A.

P During the year, the following dividends were paid to the FSI of the HKSAR Government:

in HK$ million	2022	2021
Ordinary dividends		
– Cash dividends paid	**6,673**	5,700

48 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December not provided for in the consolidated financial statements were as follows:

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects (note a)	Hong Kong property rental and development	Mainland China and overseas operations (note b)	Total
At 31 December 2022					
Authorised but not yet contracted for	**30,961**	**7,819**	**8,097**	**1,123**	**48,000**
Authorised and contracted for	**18,699**	**3,752**	**1,037**	**2,574**	**26,062**
	49,660	**11,571**	**9,134**	**3,697**	**74,062**
At 31 December 2021					
Authorised but not yet contracted for	10,741	5,773	2,242	2,845	21,601
Authorised and contracted for	19,670	1,413	1,364	2,299	24,746
	30,411	7,186	3,606	5,144	46,347

Note:

(a) As at 31 December 2022, capital commitments of Hong Kong railway extension project included costs of HK$6.4 billion in respect of which the project agreement has been signed, remaining costs of HK$5.2 billion in relation to certain projects with the HKSAR Government in respect of which the project agreements are yet to be reached. These costs are approved by the Board of Directors but yet to be incurred as at 31 December 2022. The costs concerned are dealt with in accordance with the accounting policy set out in note 2K.

(b) As at 31 December 2022, capital commitment of Mainland China and overseas operations included the authorised outstanding commitments totalling HK$3.7 billion (2021: HK$5.1 billion) for the capital expenditure in relation to the SZL13 project.

In addition to the above, the Group has the following commitments in respect of its investments in subsidiary and associate:

In respect of Shenzhen Metro Line 13, the Group is responsible to contribute equity injection of up to RMB1,428 million (HK$1,602 million). Up to 31 December 2022, the Group has contributed RMB785 million (HK$916 million) equity to the project.

In respect of Sydney Metro City & Southwest, the Group is expected to further contribute equity of approximately AUD12.7 million (HK$67.2 million) and loans of approximately AUD13.3 million (HK$70.3 million) to the project for the share of investment.

48 Commitments *(continued)*

A Capital Commitments *(continued)*

(ii) The capital commitments not provided for in the consolidated financial statements under Hong Kong transport operations, station commercial and other businesses comprise the following:

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2022				
Authorised but not yet contracted for	**24,352**	**2,165**	**4,444**	**30,961**
Authorised and contracted for	**15,379**	**983**	**2,337**	**18,699**
	39,731	**3,148**	**6,781**	**49,660**
At 31 December 2021				
Authorised but not yet contracted for	5,990	1,168	3,583	10,741
Authorised and contracted for	16,044	659	2,967	19,670
	22,034	1,827	6,550	30,411

B Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2022, the Group had total outstanding liabilities and contractual commitments of HK$3,433 million (2021: HK$3,510 million) in respect of these works and services. Cash funds totalling HK$3,485 million (2021: HK$3,230 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

C Material Financial and Performance Guarantees

(i) In respect of the lease out/lease back transaction ("Lease Transaction") (note 20E), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$63 million (HK$492 million) as at 31 December 2022. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$69 million (HK$544 million) as at 31 December 2022.

(ii) In respect of the Melbourne train system Franchise, the Group has provided to the Public Transport Victoria a parent company guarantee of AUD164 million (HK$865 million) and a performance bond of AUD59 million (HK$312 million) on joint and several basis with other shareholders for Metro Trains Melbourne Pty. Ltd.'s performance and other obligations under the franchise agreement. In respect of the lease of the office premises, MTM has provided bank guarantees of AUD5 million (HK$25 million) as at 31 December 2022 for the monthly rental payments to the landlords.

48 Commitments *(continued)*

C Material Financial and Performance Guarantees *(continued)*

(iii) In respect of the Sydney Metro North West Franchise, the Group has provided to NRT Pty Ltd, an associate of the Group, a parent company guarantee with a liability cap of AUD1,526 million (HK$8,071 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD18 million (HK$94 million) for the performance and other obligations under the design and construction sub-contract. The Group has also provided a parent company guarantee with a liability cap of AUD148 million (HK$781 million) for the operation and maintenance of Sydney Metro North West, which can be called if the franchise is terminated early as a result of default by Metro Trains Sydney Pty Limited. The Group has also provided bank guarantee amounting to AUD25 million (HK$134 million) as at 31 December 2022 for the operation and maintenance of Sydney Metro North West.

(iv) In respect of the Sydney Metro City & Southwest Franchise, the Group has provided to NRT CSW Pty Ltd a parent company guarantee with a liability cap of AUD602 million (HK$3,184 million) for the integrator works under the integrator contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts) and performance bonds of AUD109 million (HK$576 million) for integrator works under the integrator contract. The Group has also provided a parent company guarantee with a liability cap of AUD28 million (HK$145 million) for the mobilisation phase of the operation and maintenance of Sydney Metro City & Southwest. The Group has also provided a parent company guarantee to Metro Trains Sydney Pty Ltd with a liability cap of AUD221 million (HK$1,169 million) and a parent company guarantee to MTR Corporation (Sydney) SMCSW Pty Limited with a liability cap of AUD221 million (HK$1,169 million) for the interface works under Sydney Metro North West and Sydney Metro City & Southwest. The Group has also provided standby LC's for the Group's equity interest in Sydney Metro City & Southwest project, and such standby LC's amounted to AUD26 million (HK$137 million) as at 31 December 2022.

(v) In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 35C), the Company has provided guarantees to the investors of approximately HK$16,131 million (in notional amount) as at 31 December 2022. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

(vi) In respect of the various lines of the Macao Light Rapid Transit, the Group has provided to Macao Light Rapid Transit Corporation Limited and the Macao SAR Government a number of bank guarantees amounting to MOP236 million (HK$229 million) as at 31 December 2022 for the performance and other obligations under the project.

(vii) In respect of the Mälartåg Franchise in Sweden, the Group has provided to the Sweden transport authority a bank guarantee of SEK300 million (HK$224 million) as at 31 December 2022, which can be called if the franchise is terminated early as a result of default by MTR Mälartåg AB, the wholly owned subsidiary of the Group to undertake the franchise.

(viii) In respect of the Stockholm metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$746 million) as at 31 December 2022, which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

(ix) In respect of the Stockholms Pendeltåg Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$746 million) as at 31 December 2022, which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

(x) In respect of the lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB13 million (HK$14 million) and a parent company guarantee of RMB53 million (HK$59 million) in respect of the quarterly rental payments to the landlord.

(xi) In respect of the investment in Hangzhou West Station property development project, the Group has provided a financial guarantee of RMB150 million (HK$169 million) to the banks participating in the syndication loan for the repayment of interest and/or loan principal by the consortium.

(xii) In respect of the Hangzhou Metro Line 1 and Hangzhou Metro Line 5 concessions, the Group is required to provide handover bank bonds to the Hangzhou Municipal Government before the end of the concessions for a period of three years to cover any non-compliance of handover requirements under the concession agreements.

48 Commitments *(continued)*

C Material Financial and Performance Guarantees *(continued)*

(xiii) In respect of the SZL4 concession, the Group has provided to the Shenzhen Municipal Government a parent company guarantee in respect of MTR Corporation (Shenzhen) Limited's performance and other obligations under the concession agreement, which can be called if the performance and other obligations are not met.

(xiv) In respect of the Shenzhen Metro Line 13 concession, the Group is required to provide handover bank bonds to the Shenzhen Municipal Government before the end of the concessions for a period of three years to cover any non-compliance of handover requirements under the concession agreements.

(xv) In respect of the London Elizabeth Line Franchise in London, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$753 million) and a performance bond of GBP25 million (HK$235 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement. The Group has also provided a performance bond of GBP1 million (HK$9 million) as at 31 December 2022 for minor infrastructure improvement works under London Rail Infrastructure Improvement Framework.

(xvi) In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport a parent company guarantee of GBP1.8 million (HK$17 million) and an early termination indemnity of GBP1.8 million (HK$17 million) as at 31 December 2022 for the performance and other obligations under the National Rail Contract. The Group has provided a funding deed bond of GBP0.9 million (HK$8 million) and an early termination indemnity agreement bond of GBP0.9 million (HK$8 million) as at 31 December 2022 for aforementioned obligations.

No provision was recognised in respect of the above financial and performance guarantees as at 31 December 2022.

D Service Concession in respect of the Rail Merger and Operating Arrangements for HSR and SCL

Pursuant to the Rail Merger and Operating Arrangements for HSR and SCL, the Company is obliged under the SCA to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession and recognised as obligations under service concession in the statement of financial position. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system (including HSR & SCL) above certain thresholds. Furthermore, under the SCA, SSCA-HSR and SSCA3-SCL, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the periods of the service concession which is to be returned at the expiry of the service concession.

49 Non-adjusting Event after the Reporting Period

On 28 February 2023, the Company entered into a project agreement with the HKSAR Government for the financing, design, construction, completion, pre-operation, operation and maintenance of the Tung Chung Line Extension. Pursuant to the project agreement, total amount of land premium payable by the Company in respect of the proposed property development at new Tung Chung East Station shall be assessed by the Government as the full market value of the site (taking into account the presence of the railway) less a total amount of HK$18,365 million ("Reduction Amount") for the purpose of bridging the funding gap of the Tung Chung Line Extension project. The proposed property development site will be developed in portions and the land premium assessment for each portion will be carried out, at the time of the relevant tender, with a specified tranche of the Reduction Amount being deducted.

50 Company-level Statement of Financial Position

in HK$ million	At 31 December 2022	At 31 December 2021
Assets		
Fixed assets		
– Investment properties	**89,335**	82,492
– Other property, plant and equipment	**100,180**	99,513
– Service concession assets	**29,959**	28,393
	219,474	210,398
Property management rights	**11**	12
Railway construction in progress	**–**	–
Property development in progress	**41,269**	11,215
Deferred expenditure	**2,540**	1,964
Investments in subsidiaries	**3,123**	2,479
Interests in associates	**410**	24
Investments in securities	**–**	499
Properties held for sale	**1,876**	543
Derivative financial assets	**216**	363
Stores and spares	**1,570**	1,483
Debtors and other receivables	**8,050**	9,287
Amounts due from related parties	**22,330**	20,978
Cash, bank balances and deposits	**7,124**	12,304
	307,993	271,549
Liabilities		
Short-term loans	**1,500**	1,599
Creditors, other payables and provisions	**60,505**	30,442
Current taxation	**2,827**	2,356
Amounts due to related parties	**16,901**	19,179
Loans and other obligations	**27,497**	21,395
Obligations under service concession	**9,976**	10,047
Derivative financial liabilities	**1,104**	561
Deferred tax liabilities	**14,507**	14,263
	134,817	99,842
Net assets	**173,176**	171,707
Capital and reserves		
Share capital	**60,547**	60,184
Shares held for Executive Share Incentive Scheme	**(262)**	(245)
Other reserves	**112,891**	111,768
Total equity	**173,176**	171,707

Approved and authorised for issue by the Members of the Board on 9 March 2023

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

51 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation and amortisation are calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2J).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2I(ii). Long-lived assets (including service concession assets of SZL4 (note 21B)) are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs of disposal and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets and the management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the scheme is dependent on certain assumptions and factors provided by the Group, which are disclosed in notes 45A(i) and 46F.

(iv) Profit Recognition on Hong Kong Property Development

Recognition of profits from Hong Kong property development (including fair value measurement of investment properties on initial recognition) requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold interests in properties at the lower of their costs and net realisable values (note 29) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group engages independent qualified surveyors to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual fair value measurement of its investment properties by independent qualified surveyors based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057, except for HSR and SCL which the concession periods are detailed in note 3. Pursuant to the terms of the OA and the MTR Ordinance, the Company may apply for extensions of the franchise and the Secretary for Transport and Logistics shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property and to the extent that the capital expenditure exceeds an agreed threshold ("Capex Threshold"), in an amount equal to any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value. The Group's depreciation policies (note 2J) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

51 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following *(continued)*:

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the consolidated financial statements, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

As detailed in note 16A(ii), there are tax queries from the IRD with the Company on tax deductibility of the Sums for which the ultimate tax determination is uncertain up to the date of this financial statements. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xi) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than as set out in note 22, as at 31 December 2022, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

52 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 December 2022

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKFRS 17, *Insurance contracts: Initial application of HKFRS 17 and HKFRS 9 – Comparative information*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants*	1 January 2024
Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*	1 January 2024
Hong Kong Interpretation 5 (Revised), *Presentation of Financial Statements: Classification by the borrower of a term loan that contains a repayment on demand clause*	1 January 2024

The Group is in the process of making an assessment of what the impact of these new or amended standards is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

53 Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the Board on 9 March 2023.

GLOSSARY

Airport Express	Train service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of Tuen Ma Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited, a company which was incorporated in Hong Kong under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or the predecessor Companies Ordinance Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service) and Tuen Ma lines
EBITDA	Operating profit/loss before fair value measurement of investment properties, depreciation, amortisation, impairment loss, variable annual payment, share of profit of associates and joint ventures, interests, finance charges and taxation
EBITDA Margin	EBITDA (excluding Hong Kong property development profit from share of surplus and interest in unsold properties) as a percentage of revenue
EBIT	Profit/loss before fair value measurement of investment properties, interest, finance charges and taxation and after variable annual payment
EBIT Margin	EBIT (excluding Hong Kong property development profit from share of surplus and interest in unsold properties, and share of profit of associates and joint ventures) as a percentage of revenue
Express Rail Link or High Speed Rail or HSR	Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, also known as Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) after the commencement of passenger service on 23 September 2018
Fare Index	A measure of customer satisfaction for the fares charged for Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Heavy Rail	Collective name for Domestic Service, Cross-boundary Service and Airport Express

GLOSSARY

Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity Service or Intercity	Intercity through train services operated between Hong Kong and major cities in Mainland China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before fair value measurement of investment properties, depreciation, amortisation, impairment loss, variable annual payment, share of profit of associates and joint ventures, interests, finance charges and taxation divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Line 4 operation and accreted interest on loan to a property developer
KCRC	Kowloon-Canton Railway Corporation
KPMG	KPMG, Certified Public Accountants, the independent auditor of the Company. KPMG is a Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Light Rail	Light rail serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loans from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium-term notes in the consolidated statement of financial position as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Return on Average Equity Attributable to Shareholders of the Company arising from Underlying Businesses	Profit attributable to shareholders of the Company arising from underlying businesses as a percentage of the average of the beginning and closing total equity attributable to shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in Mainland China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary, associate or joint venture of the Company to provide certain specified services for a specified period under a negotiated concession agreement
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research

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SHAREHOLDER SERVICES

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

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