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OS AA01

Statement of details of parent law and other
information for an overseas company



Companies House

✓ What this form is for
You may use this form to
accompany your accounts
disclosed under parent law.

✗ What this form is NOT
You cannot use this form
an alteration of manner
with accounting require

MONDAY



A02 *AC7FWKQR* 10/07/2023 #17
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ① MTR CORPORATION LIMITED

UK establishment number B R 0 1 2 3 6 4

→ Filling in this form
Please complete in typescript or in
bold black capitals.
All fields are mandatory unless
specified or indicated by *
① This is the name of the company in
its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and
audited.

Legislation ② Companies Ordinance of the Laws of Hong Kong

② This means the relevant rules or
legislation which regulates the
preparation of accounts.

A2 Accounting principles

Accounts Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?
Please tick the appropriate box.
☐ No. Go to Section A3.
☒ Yes. Please enter the name of the organisation or other
body which issued those principles below, and then go to Section A3.

Name of organisation or body ③ Hong Kong Institute of Certified Public Accountants

③ Please insert the name of the
appropriate accounting organisation
or body.

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OS AA01

Statement of details of parent law and other information for an overseas company

A3

Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ No. Go to **Part 3 'Signature'**.

☒ Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.

● Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body ●

Hong Kong Institute of Certified Public Accountants

Part 3

Signature

I am signing this form on behalf of the overseas company.

Signature

Signature

X

G. E. Meller

X

6 July 2023

This form may be signed by: Gillian Elizabeth Meller
Director, Secretary, ~~Permanent representative~~.

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**Presenter information**

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

| | | | | | | | | | | |
|---------------|--|---|---|---|---|--|---|---|---|--|
| Contact name | Ms Sheila Jean King | | | | | | | | | |
| Company name | MTR Corporation Limited | | | | | | | | | |
| Address | Suite 5, Eleven Arches House, Leicester Road, Rugby | | | | | | | | | |
| Post town | | | | | | | | | | |
| County/Region | | | | | | | | | | |
| Postcode | | C | V | 2 | 1 | | 1 | F | D | |
| Country | U.K. | | | | | | | | | |
| DX | | | | | | | | | | |
| Telephone | 44 1788 820100 | | | | | | | | | |

**Checklist**

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

**Important information**

Please note that all this information will appear on the public record.

**Where to send**

You may return this form to any Companies House address:

England and Wales:

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1

Northern Ireland:

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.

**Further information**

For further information, please see the guidance notes on the website at www.gov.uk/companieshouse or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.gov.uk/companieshouse

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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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> Corporate Governance Report (pages 100 to 134) |
| (6) Description of the Group's relationships with its key stakeholders | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 ^Δ |
|---|-----------------------------|----------------------------------|-------------------------------------|--------------------|--|
| | 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

Δ 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:

| Members of the Executive Directorate and eligible employees | Date of award | Types of award shares granted (Note 1) | | 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\$) |
|---|-------------------|--|-----------------------------|---|-------------------------------------|--|---|--|
| | | Restricted shares (Note 2) | Performance shares (Note 3) | | | | | |
| 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) | | 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\$) |
|---|-------------------|--|-----------------------------|---|-------------------------------------|--|---|--|
| | | Restricted shares (Note 2) | Performance shares (Note 3) | | | | | |
| 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

- The award shares granted under the Executive Share Incentive Scheme are issued Ordinary Shares.
- 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).
- 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.
- 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.
- 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.
- 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.
- Other eligible employees also include former employees of the Company.
- 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.
- 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.
- No award shares were cancelled during the year.
- 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.
- 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 SSICA 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 SSICA; 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 SSICA") relating to the Shatin to Central Link, to supplement the Existing Service Concession Agreement and to supersede and replace the TML SSICA 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 SSICA 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 SSICA 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 SSICA 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 SSICA

The terms of the SCL SSICA are based substantially on the terms of the Existing Service Concession Agreement, as explained in the paragraphs above. The SCL SSICA 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 SSICA 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 SSICA 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 SSICA (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 SSICA); 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 SSICA that are specific to the Shatin to Central Link include:

- Concession payments

The concession payments under the SCL SSICA 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 SSICA (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(l)(i) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(l)(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(l)(ii) of the Merger-related Waiver and paragraph B(l)(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(l)(i) of the Merger-related Waiver and paragraph B(l)(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(l)(ii) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(l)(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(l)(ii) of the Merger-related Waiver and paragraph B(l)(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(l)(ii) of the Merger-related Waiver and paragraph B(l)(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 | Name | Director | Alternate Director |
|---------------------------------|-------------|--------------------|-------------------------------|-------------|--------------------|
| Altamirano Celis, Sandra Elena | ✓ | | Lau Tin-shing, Adi | ✓ | |
| Arrowsmith, Stephen | | ✓(Resigned) | Lau Wai-ming | ✓ | |
| Astrand, Anna Caroline | ✓ | | Dr Lee Kar-yun, Tony | ✓ | |
| Dr Auyeung Pak-kuen, Rex | ✓ | | Lee Wai-kwong, Sunny | ✓ | |
| Bailie, William Paul | ✓ | | Lee Yuen-ling | ✓ | |
| Butcher, Stephen Anthony | | ✓ | Leung Yiu-fai, David | ✓(Resigned) | |
| Chan Chi-hung | ✓ | | Li Sau-lin, Linda | | ✓(Resigned) |
| Chan Hing-keung | ✓ | | Lung Tze-ho | ✓ | ✓ |
| Chan Ting-bond, Michael | ✓ | | McCusker, Andrew | ✓ | |
| Chan Wai-man, Raymond | ✓ | | Meller, Gillian Elizabeth | ✓ | |
| Dr Chan Yuen Tak-fai, Dorothy | ✓ | | Meyer, Peter | ✓ | |
| Chen Lei | ✓(Resigned) | | Moros, Tony Antonio | ✓ | |
| Cheng Lok-ching, Clarence | ✓(Resigned) | | Murphy, Stephen John | ✓ | |
| Cheng Wai-ching, Margaret | ✓ | | Mylvaganam, Deva Rajan | ✓(Resigned) | |
| Cheng Yan-kee | ✓ | | Ng Isaac | ✓ | |
| Cheng Yiu-lam, Elaine | ✓ | | Ng Lup-nung, Leo | ✓ | |
| Chim Edwin | | ✓ | Ng Yuen-fan, Hannah | | ✓ |
| Chiu Man | ✓ | | Nilsson, Per Håkan Lennart | ✓(Resigned) | |
| Chow Chiu-wai | | ✓(Resigned) | O'Flaherty, Raymond Anthony | ✓ | |
| Chow Chun-ling | ✓ | | Ortner, Ruben Daniel Johannes | ✓ | |
| Chu Fung-kuen, Margaret | ✓ | | Pagliari, Stefan Michael | | ✓(Resigned) |
| Collis, Charles Grant Ross | ✓ | | Pang Hoi-hing | ✓ | |
| Dalin, Bengt Carl Harald Henrik | ✓ | | Poon Kai-chung | ✓ | |
| Damm, Bo Fredrik | ✓ | | Qabli, Amina Sofie | | ✓(Resigned) |
| Downie, Brian Francis | ✓ | ✓ | Quarrie, Ian Roger | ✓ | ✓ |
| Dr Fong Ching, Eddy | ✓(Resigned) | | Restrepo Suarez, Soraya | | ✓ |
| Fu Oi-yu | ✓ | | Sin Pik-kwan | ✓(Resigned) | |
| Fung Ching-ting, Teresa | ✓ | | Soo Tsung-lee, Gene | ✓(Resigned) | |
| Fung Wai-yee | ✓(Resigned) | | Suen Yiu-tat | ✓(Resigned) | |
| Hellnefs, Karl Erik Hjalmar | ✓ | | Tam Ka-yee, Irene | ✓ | |
| Ho Ka-wa | ✓ | | Tam Lup-kwan | ✓ | ✓ |
| Holness, Nigel Graham | ✓(Resigned) | | Tang Chi-fai, David | ✓ | |
| Hui Chun-sing, Thomas | ✓ | | Wan Wai-yin | ✓ | |
| Hui Leung-wah, Herbert | ✓ | | Wei Li-ping | ✓ | |
| Jensen, Frederik Mark | ✓(Resigned) | | Wei Yan | ✓ | |
| Jia Jun | ✓ | | Williams Daniel | ✓ | |
| Jim Kwok-wah | ✓ | | Wong Daniel | ✓ | |
| Johannesson, Mats Göran | ✓(Resigned) | | Wong Hin-cheong | ✓(Resigned) | |
| Jones, Niel Leonard | | ✓ | Wong Kin-wai | ✓ | |
| Jubian, Albert | ✓ | | Wong Kwan-wai, Sammy | ✓ | |
| Dr Kam Chak-pui, Jacob | ✓ | | Wong O-cheung, Ernest | ✓(Resigned) | |
| Kenny, Michael John | | ✓ | Wong Wing-kin | ✓ | |
| Kershaw, Phillip John | ✓ | ✓ | Xia Jing | ✓ | |
| Kiang Yee-wing | ✓ | | Xu Muhan | ✓ | |
| King, Andrew Lewis | ✓ | | Yam Pak-nin | ✓ | ✓ |
| Kong Yuk-foon, Doreen | | ✓ | Yeung Mei-chun, Jeny | ✓ | |
| Kwok Lai-kay, Lena | ✓ | ✓ | Yip Chun-to | ✓ | |
| Kwong Chung-hing | | ✓ | Young Ka-fan, Glen | | ✓ |
| Lai Ching-kai | | ✓ | Yuen Lai-ki | ✓ | |
| Lai Kai-shing | ✓ | | Yuen Lap-hang | ✓ | |
| Lau Kwai-hin, Kenneth | ✓ | | Zhang Ling | ✓ | |

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**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 2 to 98, 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 ("HSAs") 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 22

The Key Audit Matter

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.

How the matter was addressed in our audit

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

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.

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

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;
- 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.

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.

Valuation of investment properties (“IP”)

Refer to note 20A to the consolidated financial statements and the accounting policies in note 2E(i)

The Key Audit Matter

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.

How the matter was addressed in our audit

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.

Assessing impairment of fixed assets other than assets carried at revalued amounts

Refer to notes 20B and 21 to the consolidated financial statements and the accounting policies in note 2I(ii)

The Key Audit Matter

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

How the matter was addressed in our audit

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

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.

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.

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.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
9 March 2023

MTR CORPORATION LIMITED

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 |
| | | <u>47,639</u> | <u>46,849</u> |
| Revenue from Mainland China property development | 7 | 173 | 353 |
| Total revenue | | <u>47,812</u> | <u>47,202</u> |
| 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) |
| | | <u>(12,713)</u> | <u>(12,343)</u> |
| 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) |
| | | <u>(39,787)</u> | <u>(38,830)</u> |
| Expenses relating to Mainland China property development | 7 | (114) | (224) |
| Operating expenses before depreciation, amortisation and variable annual payment | 10 | <u>(39,901)</u> | <u>(39,054)</u> |
| 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 |
| | | <u>7,911</u> | <u>8,148</u> |
| 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 | | <u>18,690</u> | <u>17,629</u> |
| 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 | | <u>12,731</u> | <u>12,907</u> |
| Interest and finance charges | 15 | (982) | (967) |
| Profit before taxation | | <u>11,749</u> | <u>11,940</u> |
| Income tax | 16 | (1,608) | (2,261) |
| Profit for the year | | <u><u>10,141</u></u> | <u><u>9,679</u></u> |
| Attributable to: | | | |
| - Shareholders of the Company | | 9,827 | 9,552 |
| - Non-controlling interests | | 314 | 127 |
| Profit for the year | | <u><u>10,141</u></u> | <u><u>9,679</u></u> |

MTR CORPORATION LIMITED

Consolidated Statement of Profit or Loss *(Continued)*
for the year ended 31 December in HK\$ million

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| | Note | 2022 | 2021 |
|--|-----------|----------|----------|
| 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 8 to 105 form part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December in HK\$ million

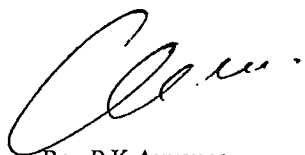
| | Note | 2022 | 2021 |
|--|------|---------------|---------------|
| Profit for the year | | 10,141 | 9,679 |
| Other comprehensive (loss) / income for the year (after taxation and reclassification adjustments): | | | |
| Items that will not be reclassified to profit or loss: | 19 | | |
| - Surplus 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 8 to 105 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 |
| | | <u>229,491</u> | <u>221,032</u> |
| 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 |
| | | <u>327,081</u> | <u>292,082</u> |
| 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 |
| | | <u>147,169</u> | <u>112,045</u> |
| Net assets | | <u>179,912</u> | <u>180,037</u> |
| 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 | | <u>179,286</u> | <u>179,714</u> |
| Non-controlling interests | | <u>626</u> | <u>323</u> |
| Total equity | | <u>179,912</u> | <u>180,037</u> |

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 8 to 105 form part of the consolidated financial statements.

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MTR CORPORATION LIMITED

Consolidated Statement of Changes in Equity
for the year ended 31 December in HK\$ million

| 2022 | Note | Share capital | Shares held for Executive Share Incentive Scheme | Other reserves | | | | Retained profits | Total equity attributable to shareholders of the Company | Non-controlling interests | Total equity |
|---|------|---------------|--|----------------------------------|-----------------|--------------------------------------|------------------|------------------|--|---------------------------|--------------|
| | | | | Fixed assets revaluation reserve | Hedging reserve | Employee share-based capital reserve | Exchange reserve | | | | |
| 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 | 19 | - | - | - | - | - | - | 9,827 | 9,827 | 314 | 10,141 |
| - Other comprehensive income/(loss) for the year | | - | - | 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 | 19 | - | - | - | - | - | - | 9,552 | 9,552 | 127 | 9,679 |
| - Other comprehensive income/(loss) for the year | | - | - | 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 8 to 105 form part of the consolidated financial statements.

25/04/2023

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MTR CORPORATION LIMITED

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 | <u>10,241</u> | <u>10,752</u> |

The notes on pages 8 to 105 form part of the consolidated financial statements.

Notes to 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)).

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.

(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.

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.

(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

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.

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.

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.

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.

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).

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.

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.

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.

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:

| <i>in HK\$ million</i> | 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 |
| | <u>13,404</u> | <u>13,177</u> |

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:

| <i>in HK\$ million</i> | 2022 | 2021 |
|---------------------------------|--------------|--------------|
| Duty free shops and kiosks | 1,544 | 1,594 |
| Advertising | 836 | 894 |
| Telecommunication income | 616 | 631 |
| Other station commercial income | 81 | 89 |
| | <u>3,077</u> | <u>3,208</u> |

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

| <i>in HK\$ million</i> | 2022 | 2021 |
|----------------------------|--------------|--------------|
| Property rental income | 4,525 | 4,787 |
| Property management income | 254 | 249 |
| | <u>4,779</u> | <u>5,036</u> |

7 Revenue and Expenses Relating to Mainland China and International Subsidiaries

Revenue and expenses relating to Mainland China and international subsidiaries comprise:

| <i>in HK\$ million</i> | 2022 | | 2021 | |
|---|---------------|---------------|---------------|---------------|
| | 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 |
| | <u>26,016</u> | <u>24,751</u> | <u>25,045</u> | <u>24,155</u> |
| Property development in Mainland China | 173 | 114 | 353 | 224 |
| Total Mainland China and international subsidiaries | <u>26,189</u> | <u>24,865</u> | <u>25,398</u> | <u>24,379</u> |

* 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:

| <i>in HK\$ million</i> | 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.

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 | | | | | | |
|---|---------------------------------|-------|---|--|--|---|---------------------|------------------------|----------|
| | | | Hong Kong property rental and manage- ment | Hong Kong property develop- ment | Mainland China and international railway, property rental and management businesses | Mainland China property develop- ment | Other businesses | Un-allocated amount | Total |
| <i>in HK\$ million</i> | | | | | | | | | |
| 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 |

MTR CORPORATION LIMITED

| | | | | | | | | | |
|---|----------------|--------------|---------------|---------------|---------------|--------------|--------------|----------------|----------------|
| 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 | <u>(4,733)</u> | <u>2,270</u> | <u>2,986</u> | <u>10,413</u> | <u>91</u> | <u>67</u> | <u>187</u> | <u>(1,140)</u> | <u>10,141</u> |
| 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 | <u>136,934</u> | <u>4,175</u> | <u>92,208</u> | <u>46,312</u> | <u>28,742</u> | <u>5,366</u> | <u>3,390</u> | <u>9,954</u> | <u>327,081</u> |
| 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 | <u>34,026</u> | <u>1,834</u> | <u>2,526</u> | <u>31,962</u> | <u>11,050</u> | <u>834</u> | <u>1,886</u> | <u>63,051</u> | <u>147,169</u> |
| 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 |

| | Hong Kong transport services | | | Mainland China and international affiliates | | | Other businesses | Un-allocated amount | Total |
|--|--------------------------------|---|---|---|---|-------------------------------------|------------------|---------------------|----------|
| | 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 | | | |
| <i>in HK\$ million</i> | | | | | | | | | |
| 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 |

MTR CORPORATION LIMITED

| | | | | | | | | | |
|--|----------------|--------------|---------------|---------------|---------------|--------------|--------------|---------------|----------------|
| 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 |

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.

| <i>in HK\$ million</i> | Revenue from external customers | | Specified non-current assets | |
|-----------------------------------|---------------------------------|---------------|------------------------------|----------------|
| | 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 | <u>20,934</u> | <u>20,188</u> |

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 |
| | <u>1,631</u> | <u>1,548</u> |

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 | - |
| | <u>32</u> | <u>29</u> |

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:

| <i>in HK\$ million</i> | <u>Fees</u> | <u>Base pay, allowances and benefits in kind</u> | <u>Retirement scheme contributions</u> | <u>Variable remuneration related to performance</u> | <u>Total</u> |
|--|-------------|--|--|---|--------------|
| 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 [△] | 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 |

| <u>9.7</u> | <u>62.6</u> | <u>6.5</u> | <u>21.9</u> | <u>100.7</u> |
|------------|-------------|------------|-------------|--------------|
|------------|-------------|------------|-------------|--------------|

- * 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.
- △ 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.

| <i>in HK\$ million</i> | 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.

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);
 - 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:

| <i>in HK\$ million</i> | 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 |
| | <u>17.6</u> |

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:

| <i>in HK\$ million</i> | 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 |
| | <u>(810)</u> | <u>(1,616)</u> |

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 |
| | <u>4,181</u> | <u>4,184</u> |
| 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) |
| | <u>1,588</u> | <u>1,246</u> |
| | <u>5,769</u> | <u>5,430</u> |

15 Interest and Finance Charges

in HK\$ million

| | 2022 | 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 | <u>(253)</u> | <u>(144)</u> |
| | 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 | <u>(13)</u> | <u>(8)</u> |
| | 188 | 39 |
| Interest expenses capitalised | <u>(356)</u> | <u>(322)</u> |
| | 1,378 | 1,240 |
| Interest income in respect of: | | |
| - Deposits with banks | (316) | (215) |
| - Others | <u>(80)</u> | <u>(58)</u> |
| | (396) | (273) |
| | <u>982</u> | <u>967</u> |

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:

| <i>in HK\$ million</i> | 2022 | 2021 |
|---|--------------|--------------|
| Current tax | | |
| - Hong Kong Profits Tax | 989 | 1,803 |
| - Tax outside Hong Kong | 413 | 375 |
| | <u>1,402</u> | <u>2,178</u> |
| 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) |
| | <u>206</u> | <u>83</u> |
| | <u>1,608</u> | <u>2,261</u> |

(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.

B. Reconciliation between tax expense and accounting profit or loss at applicable tax rates:

| | 2022 | | 2021 | |
|--|---------------------|-------------|---------------------|-------------|
| | <i>HK\$ million</i> | <i>%</i> | <i>HK\$ million</i> | <i>%</i> |
| Profit before taxation | <u>11,749</u> | | <u>11,940</u> | |
| 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 | <u>1,608</u> | <u>13.7</u> | <u>2,261</u> | <u>18.9</u> |

17 Dividends

Ordinary dividends paid and proposed to shareholders of the Company comprise:

| <i>in HK\$ million</i> | 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 |
| | <u>8,124</u> | <u>7,865</u> |
| 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 | <u>6,317</u> | <u>6,060</u> |

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 | <u>6,190,902,155</u> | <u>6,181,426,675</u> |

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 | <u>6,196,797,798</u> | <u>6,187,030,555</u> |

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:

| <i>in HK\$ million</i> | 2022 | | | 2021 | | |
|---|----------------------|------------------------------|----------------------|----------------------|-----------------------------|----------------------|
| | 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 |

B. The components of other comprehensive income/(loss) of the Group relating to cash flow hedges are as follows:

| <i>in HK\$ million</i> | 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:

| <i>in HK\$ million</i> | 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.

B. Other Property, Plant and Equipment

| <i>in HK\$ million</i> | 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 |

* Capitalisation adjustments related to adjustments on the cost of assets to their final contract values after finalisation of contracts.

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 | <u>1,765</u> | <u>4,201</u> | <u>62,275</u> | <u>91,493</u> | <u>10,036</u> | <u>169,770</u> |
| 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 | <u>442</u> | <u>234</u> | <u>10,429</u> | <u>57,148</u> | <u>-</u> | <u>68,253</u> |
| Net book value at 31 December 2021 | <u>1,323</u> | <u>3,967</u> | <u>51,846</u> | <u>34,345</u> | <u>10,036</u> | <u>101,517</u> |

* Capitalisation adjustments related to adjustments on the cost of assets to their final contract values after finalisation of contracts.

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:

| <i>in HK\$ million</i> | 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 |
| | | <u>5,806</u> | <u>5,741</u> |
| 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 |
| | | <u>91,464</u> | <u>84,652</u> |
| Other leasehold investment property, with remaining lease term of: | | | |
| - less than 10 years | | 207 | 149 |
| | | <u>91,671</u> | <u>84,801</u> |
| | | <u>97,477</u> | <u>90,542</u> |

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

| <i>in HK\$ million</i> | 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 |
| | <u>342</u> | <u>330</u> |
| 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 | <u>34</u> | <u>32</u> |

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.

(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:

| <i>in HK\$ million</i> | 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 |
| | <u>17,054</u> | <u>19,631</u> |

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:

| <i>in HK\$ million</i> | <u>KCRC Rail Merger</u> | | 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 |
|---|-----------------------------------|--------------------------------------|---|--|-----------------------------|------------------------------|---------------|-----------------------------|---------------|
| | Initial concession property | Additional concession property | | | | | | | |
| 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 |
| 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 CREC 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.

- (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.

(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.

(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.

(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:

| <i>in HK\$ million</i> | 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 | <u>-</u> | <u>-</u> | <u>-</u> |

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

| <i>in HK\$ million</i> | Balance at 1 January | Net additions* | Transfer out to profit or loss | Balance at 31 December |
|---|-------------------------|-------------------|--------------------------------------|---------------------------|
| 2022 | | | | |
| Hong Kong Property Development Projects | <u>11,215</u> | <u>41,088</u> | <u>(11,034)</u> | <u>41,269</u> |
| 2021 | | | | |
| Hong Kong Property Development Projects | <u>11,942</u> | <u>(234)</u> | <u>(493)</u> | <u>11,215</u> |

* 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:

| <u>Name of company</u> | <u>Issued share capital/contributed registered capital</u> | <u>Proportion of ownership interest</u> | | | <u>Place of incorporation/ establishment and operation</u> | <u>Principal activities</u> |
|--|--|---|----------------------------|--------------------------------|--|---|
| | | <u>Group's effective interest</u> | <u>Held by the Company</u> | <u>Held by subsidiary(ies)</u> | | |
| 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 |

| <u>Name of company</u> | <u>Issued share capital/contributed registered capital</u> | <u>Proportion of ownership interest</u> | | | <u>Place of incorporation/ establishment and operation</u> | <u>Principal activities</u> |
|--|--|---|----------------------------|--------------------------------|--|---|
| | | <u>Group's effective interest</u> | <u>Held by the Company</u> | <u>Held by subsidiary(ies)</u> | | |
| 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 |
| 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:

| <u>Name of company</u> | <u>Proportion of ownership interest</u> | | | <u>Place of incorporation/ establishment and operation</u> | <u>Principal activities</u> |
|---|---|----------------------------|---------------------------|--|--|
| | <u>Group's effective interest</u> | <u>Held by the Company</u> | <u>Held by subsidiary</u> | | |
| <u>Associate's</u> | | | | | |
| 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^@ | 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 |
| <u>Joint Venture</u> | | | | | |
| 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

^a 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.

The summary financial information of the Group's effective interests in associates and joint ventures is as follows:

| <i>in HK\$ million</i> | 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:

| <i>in HK\$ million</i> | 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

| <i>in HK\$ million</i> | 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:

| | Notional amount | Fair value | Contractual undiscounted cash flows maturing in | | | | |
|---|--------------------|---------------|---|-----------|------------|--------------|------------|
| | | | Less than 1 year | 1-2 years | 2-5 years | Over 5 years | Total |
| <i>in HK\$ million</i> | | | | | | | |
| 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 |
| | <u>26,826</u> | <u>216</u> | <u>51</u> | <u>92</u> | <u>138</u> | <u>120</u> | <u>401</u> |
| 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 | | | | | | | |

MTR CORPORATION LIMITED

| | | | | | | | |
|--------------------------------------|---------------|----------------|--------------|--------------|--------------|--------------|----------------|
| - fair value hedges | 2,401 | (142) | (48) | (35) | (36) | (33) | (152) |
| - not qualified for hedge accounting | 300 | (47) | (10) | (9) | (20) | (17) | (56) |
| | <u>18,996</u> | <u>(1,104)</u> | <u>(274)</u> | <u>(114)</u> | <u>(351)</u> | <u>(378)</u> | <u>(1,117)</u> |

Total 45,822

| 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 |
| | <u>23,382</u> | <u>363</u> | <u>207</u> | <u>100</u> | <u>93</u> | <u>138</u> | <u>538</u> |

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) |
| | <u>14,887</u> | <u>(561)</u> | <u>(28)</u> | <u>(80)</u> | <u>(111)</u> | <u>(301)</u> | <u>(520)</u> |
| Total | <u>38,269</u> | | | | | | |

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:

| <i>in HK\$ million</i> | 2022 | | | | 2021 | | | |
|--|----------------------------|--------------|------------|---------------|----------------------------|--------------|------------|---------------|
| | 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 |
| | <u>52,384</u> | <u>5,461</u> | <u>619</u> | <u>58,464</u> | <u>48,126</u> | <u>5,351</u> | <u>620</u> | <u>54,097</u> |

Others represent obligations under lease out/lease back transaction (note 20E).

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.

(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.
- (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:

| <i>in HK\$ million</i> | 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:

| <i>in million</i> | 2022 | 2021 |
|-----------------------|------|------|
| Australian dollars | 8 | 8 |
| Renminbi | 59 | 75 |
| United States dollars | 20 | 17 |

33 Amounts Due from Related Parties

| <i>in HK\$ million</i> | 2022 | 2021 |
|------------------------|--------------|--------------|
| Amounts due from: | | |
| - HKSAR Government | 1,017 | 757 |
| - KCRC | 4,157 | 3,507 |
| - associates | 255 | 120 |
| | <u>5,429</u> | <u>4,384</u> |

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

| <i>in HK\$ million</i> | 2022 | | | 2021 | | |
|---|-----------------|---------------|------------------|-----------------|---------------|------------------|
| | Carrying amount | Fair value | Repayable amount | Carrying amount | Fair value | 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:

| <i>in million</i> | Before hedging activities | | After hedging activities | |
|-----------------------|---------------------------|--------|--------------------------|------|
| | 2022 | 2021 | 2022 | 2021 |
| Australian dollars | 431 | 431 | - | - |
| Japanese yen | 15,000 | 15,000 | - | - |
| Renminbi | 3,840 | 3,610 | - | - |
| United States dollars | 2,230 | 2,230 | - | - |

B. By Repayment Terms

| <i>in HK\$ million</i> | 2022 | | | | | 2021 | | | | |
|--|----------------------------|--------------|-------------------|------------|---------------|----------------------------|--------------|-------------------|------------|---------------|
| | Capital market instruments | Bank loans | Lease liabilities | Others | Total | Capital market instruments | Bank loans | Lease liabilities | Others | 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:

| <i>in HK\$ million</i> | 2022 | | 2021 | |
|-------------------------------|------------------|----------------------------|------------------|----------------------------|
| | Principal amount | Net consideration received | Principal amount | 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.

D. Lease Liabilities

At 31 December 2022 and 2021, the Group had lease liabilities as follows:

| | 2022 | | 2021 | |
|--------------------------------------|---|---------------------------------|---|---------------------------------|
| | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments |
| <i>in HK\$ million</i> | | | | |
| 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 |
| | <u>69,692</u> | <u>40,077</u> |

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 |
| | <u>15,585</u> | <u>14,203</u> |
| Rental and other refundable deposits | 2,459 | 2,818 |
| Accrued employee benefits | 1,539 | 1,599 |
| | <u>19,583</u> | <u>18,620</u> |

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.

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:

| <i>in HK\$ million</i> | 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

| <i>in HK\$ million</i> | 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:

| <i>in HK\$ million</i> | 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:

| <i>in HK\$ million</i> | 2022 | | | 2021 | | |
|--|--------------------------------------|---|---------------------------|--------------------------------------|---|---------------------------|
| | 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 |
| | <u>10,142</u> | <u>16,371</u> | <u>26,513</u> | <u>10,231</u> | <u>17,068</u> | <u>27,299</u> |

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:

| <i>in HK\$ million</i> | 2022 | 2021 |
|---|--------------|--------------|
| Balance relating to Hong Kong Profits Tax | 2,833 | 2,359 |
| Balance relating to tax outside Hong Kong | 120 | 22 |
| | <u>2,953</u> | <u>2,381</u> |

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:

| <i>in HK\$ million</i> | Deferred tax arising from | | | | | |
|--|---|---------------------------|---|------------------|--------------|---------------|
| | 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 | <u>14,033</u> | <u>752</u> | <u>(574)</u> | <u>18</u> | <u>(135)</u> | <u>14,094</u> |

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 | <u>13,669</u> | <u>716</u> | <u>(463)</u> | <u>1</u> | <u>(104)</u> | <u>13,819</u> |

in HK\$ million

| | 2022 | 2021 |
|------------------------------|---------------|---------------|
| Net deferred tax assets | (606) | (599) |
| Net deferred tax liabilities | <u>14,700</u> | <u>14,418</u> |
| | <u>14,094</u> | <u>13,819</u> |

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 | |
|---|-------------------------|---------------------|-------------------------|---------------------|
| | <i>Number of shares</i> | <i>HK\$ million</i> | <i>Number of shares</i> | <i>HK\$ million</i> |
| 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 | <u>6,202,060,784</u> | <u>60,547</u> | <u>6,193,462,514</u> | <u>60,184</u> |

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:

| | <u>Number of shares</u> | <u>Weighted average exercise price</u> <i>HK\$</i> |
|-----------------------------------|-------------------------|---|
| Employee share options exercised: | | |
| - 2007 Share Option Scheme | <u>2,347,500</u> | <u>28.65</u> |

As at 31 December 2021, all outstanding share options granted under the 2007 Share Option Scheme had been exercised and/or lapsed.

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%).

Fastrack 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.

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:

| in HK\$ million | Note | Share capital | Shares held for Executive Share Incentive Scheme | Fixed assets revaluation reserve | Other reserves | | | Total equity |
|---|------|---------------|--|----------------------------------|-----------------|--------------------------------------|------------------|--------------|
| | | | | | Hedging reserve | Employee share-based capital reserve | Retained profits | |
| 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 | <u>60,184</u> | <u>(245)</u> | <u>3,781</u> | <u>(172)</u> | <u>124</u> | <u>108,035</u> |
| | | | | | | | <u>171,707</u> |

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:

| <i>in HK\$ million</i> | 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 | <u>7,830</u> | <u>8,333</u> |

B. Reconciliation of the Group's liabilities arising from financing activities is as follows:

| <i>in HK\$ million</i> | Loans and other obligations | | | | Short-term | Interest and finance charges | Total |
|--|-----------------------------|------------|-------------------|----------|--------------|------------------------------|--------------|
| | Capital market instruments | Bank loans | Lease liabilities | Others | loans | payables | |
| 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) |
| | <u>4,537</u> | <u>504</u> | <u>(149)</u> | <u>-</u> | <u>(124)</u> | <u>(961)</u> | <u>3,807</u> |
| Exchange differences | - | (159) | (51) | - | (7) | - | (217) |

MTR CORPORATION LIMITED

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 |
|--------|-------|-------|-----|-------|-----|--------|

| in HK\$ million | Loans and other obligations | | | | Short-term loans | Interest and finance charges payables | Total |
|-----------------|-----------------------------|------------|-------------------|--------|------------------|---------------------------------------|-------|
| | Capital market instruments | Bank loans | Lease liabilities | Others | | | |

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

Within operating cash flows

| | |
|------|------|
| 2022 | 2021 |
|------|------|

| | |
|----|----|
| 46 | 41 |
|----|----|

Within financing cash flows

| | |
|-----|-----|
| 264 | 257 |
|-----|-----|

| | |
|-----|-----|
| 310 | 298 |
|-----|-----|

These amounts relate to the leases of the following:

in HK\$ million

Buildings

Plant and equipment

| | 2022 | 2021 |
|--|------|------|
| | 214 | 193 |
| | 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.

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:

| <i>in HK\$ million</i> | 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:

| <i>in HK\$ million</i> | At 31 December 2022 | | At 31 December 2021 | |
|----------------------------|---------------------|------------|---------------------|------------|
| | 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.

(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:

| Date of award | Number of Award Shares granted | | Fair value per share HK\$ | Vesting period | |
|---------------|--------------------------------|--------------------|------------------------------|----------------|---|
| | Restricted Shares | Performance Shares | | 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 |

Award Shares outstanding at 31 December 2022 had the following remaining vesting periods:

| Award Shares | Remaining vesting period <i>years</i> | <i>Number of Award Shares</i> |
|--------------------|--|-------------------------------|
| 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.

(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).

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

| <i>in HK\$ million</i> | 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.

B. Scheme Assets

| <i>in HK\$ million</i> | 2022 | 2021 |
|------------------------------|--------------|--------------|
| Equity securities | | |
| - Financial institutions | 223 | 283 |
| - Non-financial institutions | 2,016 | 2,456 |
| | <u>2,239</u> | <u>2,739</u> |
| Bonds | | |
| - Government | 1,448 | 1,339 |
| - Non-government | 1,371 | 2,234 |
| | <u>2,819</u> | <u>3,573</u> |
| Cash | 2,645 | 3,207 |
| | <u>7,703</u> | <u>9,519</u> |
| Voluntary units | (203) | (225) |
| | <u>7,500</u> | <u>9,294</u> |

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

| <i>in HK\$ million</i> | 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 changes in demographic assumptions | - | - |
| - Actuarial gains arising from changes in financial assumptions | (713) | (5) |
| | <u>(768)</u> | <u>12</u> |
| 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 | <u>7,488</u> | <u>8,887</u> |

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).

D. Movements in Fair Value of Scheme Assets

| <i>in HK\$ million</i> | <u>2022</u> | <u>2021</u> |
|--|--------------|--------------|
| 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 | <u>7,500</u> | <u>9,294</u> |

E. Expenses Recognised in Profit or Loss and Other Comprehensive Income

| <i>in HK\$ million</i> | <u>2022</u> | <u>2021</u> |
|--|-------------|--------------|
| Current service cost | 196 | 226 |
| Net interest on net defined benefit asset | (6) | (4) |
| Administrative expenses paid from scheme assets | 3 | 5 |
| | <u>193</u> | <u>227</u> |
| Less: Amount capitalised | (42) | (39) |
| Net amount recognised in profit or loss | <u>151</u> | <u>188</u> |
| Actuarial (gains)/losses | (768) | 12 |
| Return on scheme assets, excluding interest income | 995 | (272) |
| Amount recognised in other comprehensive income | <u>227</u> | <u>(260)</u> |

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

| | <u>2022</u> | <u>2021</u> |
|------------------------|--------------|--------------|
| Discount rate | 4.78% | 1.49% |
| Future salary increase | 4.00% | 3.00% |
| Unit value increase | <u>6.50%</u> | <u>3.50%</u> |

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:

| | <u>2022</u> | | <u>2021</u> | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| | Increase in 0.25% | Decrease in 0.25% | Increase in 0.25% | Decrease in 0.25% |
| | HK\$ million | HK\$ million | HK\$ million | HK\$ million |
| Discount rate | (80) | 82 | (113) | 116 |
| Future salary increases | 62 | (59) | 84 | (79) |
| Unit value increase | <u>22</u> | <u>(20)</u> | <u>33</u> | <u>(30)</u> |

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.

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 SSAC2-SCL and SSAC3-SCL amounted to HK\$496 million (2021: net revenue received or receivable from KCRC in respect of Tuen Ma Line under SSAC1-SCL and SSAC2-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.

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.

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:

| <i>in HK\$ million</i> | 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:

| <i>in HK\$ million</i> | 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:

| <i>in HK\$ million</i> | 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.

(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:

| <i>in HK\$ million</i> | 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 |
| | <u>39,731</u> | <u>3,148</u> | <u>6,781</u> | <u>49,660</u> |
| 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 |
| | <u>22,034</u> | <u>1,827</u> | <u>6,550</u> | <u>30,411</u> |

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.

(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 authorities 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.

(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, SSCL-HSR and SSCL-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.

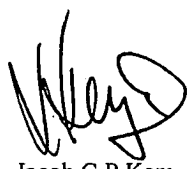
50 Company-level Statement of Financial Position

| <i>in HK\$ million</i> | <u>At 31 December 2022</u> | <u>At 31 December 2021</u> |
|--|----------------------------|----------------------------|
| 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 |
| | <u>219,474</u> | <u>210,398</u> |
| 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 |
| | <u>307,993</u> | <u>271,549</u> |
| 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 |
| | <u>134,817</u> | <u>99,842</u> |
| Net assets | <u>173,176</u> | <u>171,707</u> |
| 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 | <u>173,176</u> | <u>171,707</u> |

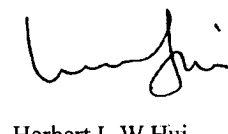
Approved and authorised for issue by the Members of the Board on 9 March 2023



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.

(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, <i>Insurance contracts</i> | 1 January 2023 |
| Amendments to HKFRS 17, <i>Insurance contracts</i> : | |
| <i>Initial application of HKFRS 17 and HKFRS 9—Comparative information</i> | 1 January 2023 |
| Amendments to HKAS 1, <i>Presentation of financial statements</i> and HKFRS Practice Statement 2, <i>Making materiality judgements</i> : | |
| <i>Disclosure of accounting policies</i> | 1 January 2023 |
| Amendments to HKAS 8, <i>Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates</i> | 1 January 2023 |
| Amendments to HKAS 12, <i>Income taxes: Deferred tax related to assets and liabilities arising from a single transaction</i> | 1 January 2023 |
| Amendments to HKAS 1, <i>Presentation of financial statements</i> : | |
| <i>Classification of liabilities as current or non-current</i> | 1 January 2024 |
| Amendments to HKAS 1, <i>Presentation of financial statements</i> : | |
| <i>Non-current liabilities with covenants</i> | 1 January 2024 |
| Amendments to HKFRS 16, <i>Leases</i> : | |
| <i>Lease liability in a sale and leaseback</i> | 1 January 2024 |
| Hong Kong Interpretation 5 (Revised), <i>Presentation of Financial Statements</i> : | |
| <i>Classification by the borrower of a term loan that contains a repayment on demand clause</i> | 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.