FINANCIAL REVIEW

HK$56,982 million
Total Revenue
↑19.2%

HK$6,364 million
Underlying Business Profit
↓40.2%

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

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

CONSOLIDATED PROFIT OR LOSS

HK$ million	Year ended 31 December 2023	2022	Favourable/ (Unfavourable) Change HK$ million	%
Total Revenue	**56,982**	**47,812**	**9,170**	**19.2**
Recurrent Business Profit				
EBIT[ε*]				
Hong Kong Transport Services				
– Hong Kong Transport Operations	**(1,111)**	(4,733)	3,622	76.5
– Hong Kong Station Commercial Businesses	**3,792**	2,270	1,522	67.0
Total Hong Kong Transport Services	**2,681**	(2,463)	5,144	n/m
Hong Kong Property Rental and Management Businesses	**3,999**	3,800	199	5.2
Mainland China and International Railway, Property Rental and Management Subsidiaries*	**524**	962	(438)	(45.5)
Other Businesses, Project Study and Business Development Expenses	**(341)**	(539)	198	36.7
Share of Profit of Associates and Joint Ventures	**1,259**	1,095	164	15.0
Total Recurrent EBIT (before Special Loss Provisions)	**8,122**	2,855	5,267	184.5
Interest and Finance Charges	**(1,213)**	(1,061)	(152)	(14.3)
Income Tax	**(1,302)**	(361)	(941)	(260.7)
Non-controlling Interests	**(304)**	(314)	10	3.2
Recurrent Business Profit (before Special Loss Provisions)	**5,303**	1,119	4,184	373.9
Provisions for Onerous Contracts and Impairment Loss	**(1,022)**	(962)	(60)	(6.2)
Recurrent Business Profit (after Special Loss Provisions)	**4,281**	157	4,124	n/m
Property Development Profit (Post-tax)				
In Hong Kong	**2,035**	10,413	(8,378)	(80.5)
Outside Hong Kong	**48**	67	(19)	(28.4)
Property Development Profit (Post-tax)	**2,083**	10,480	(8,397)	(80.1)
Underlying Business Profit	**6,364**	**10,637**	**(4,273)**	**(40.2)**
Gain/(Loss) from Fair Value Measurement of Investment Properties (Post-tax)				
Gain/(Loss) from Fair Value Remeasurement on Investment Properties	**60**	(3,076)	3,136	n/m
Gain from Fair Value Measurement of Investment Properties on Initial Recognition from Property Development	**1,360**	2,266	(906)	(40.0)
Gain/(Loss) from Fair Value Measurement of Investment Properties (Post-tax)	**1,420**	(810)	2,230	n/m
Net Profit Attributable to Shareholders of the Company	**7,784**	**9,827**	**(2,043)**	**(20.8)**
Total Recurrent EBIT Margin[#] *(in %)*	**10.3%**	1.7%		8.6% pts
Total Recurrent EBIT Margin[#] (excluding Mainland China and International Subsidiaries) *(in %)*	**20.4%**	3.7%		16.7% pts

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

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

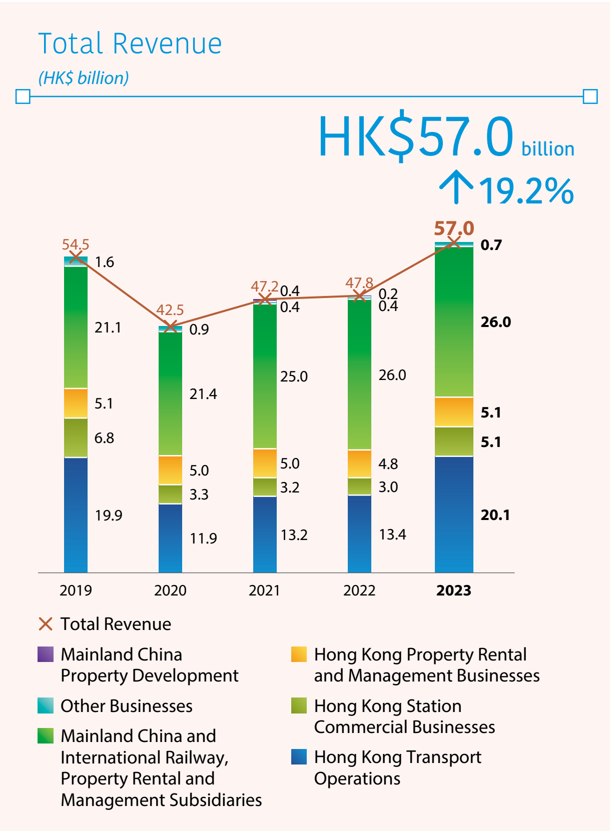
\# : *Excluding share of profit of associates and joint ventures but including special loss provisions. If excluding the special loss provisions recognised in Mainland China and International Subsidiaries, the recurrent EBIT margins (including Mainland China and International Subsidiaries) in 2023 and 2022 would have been 12.0% and 3.7% respectively*

n/m : *not meaningful*

Our Hong Kong recurrent businesses benefited from continuing recovery in Domestic patronage, the resumption of Cross-boundary and High Speed Rail services and the related Duty Free businesses. Recovery was especially strong in High Speed Rail. Outside of Hong Kong, special loss provisions were made in respect of Stockholms pendeltåg and Mälartåg regional traffic in Sweden in 2023 due to operational challenges. Modest property development profit was recorded in 2023 from initial profit from LOHAS Park Package 11 and residual profits from various completed projects, as compared to profits recognised from three development projects in 2022.

Total Revenue

The Group's total revenue in 2023 increased by 19.2% to HK$56,982 million when compared to 2022, mainly benefiting from higher revenue contribution from our Hong Kong transport services due to (i) continuing recovery in Cross-boundary and High Speed Rail fare revenue, as well as Duty Free rental income following the reopening of rail links with Mainland China, and gradual recovery in visitors' patronage since early 2023; (ii) the recovery of Domestic Service patronage which suffered in 2022 due to the outbreak of fifth wave of COVID-19 in Hong Kong; and (iii) patronage growth resulting from a full year operation of the East Rail Line cross-harbour extension.



Recurrent Business Profit

With the continuous patronage recovery in our Domestic Service, and the resumption of Cross-boundary and High Speed Rail services and related Duty Free businesses, our Hong Kong recurrent business showed significant profit increase when compared to 2022. Outside of Hong Kong, losses increased in our Nordic businesses, although this adverse impact was partly mitigated by improved profit sharing from our associates in the Mainland China.

As announced in November 2023, MTR Pendeltågen AB entered into a supplemental agreement with the Stockholm Public Transport Authority for the early termination of our concession for Stockholms pendeltåg, effective 2 March 2024. Besides, as mentioned previously, the operations of Mälartåg regional traffic operated by MTR Mälartåg AB continues to be challenging due to driver shortages and maintenance issues, and if these issues cannot be resolved in the near term, the financial sustainability of this contract may also be impacted. A supplementary agreement was signed with the client, Mälardalstrafik, in February 2024 to early terminate our service of Mälartåg regional traffic effective 16 June 2024. In respect of the above, provisions for onerous contracts of HK$702 million and HK$320 million were made, respectively, in the second half of 2023 for our Stockholms pendeltåg and the Mälartåg regional traffic concessions. The loss from Stockholms pendeltåg comprised (i) the "exit fee"; (ii) provisions for certain assets written-off; and (iii) a provision for wind-down costs. For Mälartåg regional traffic, the loss provision was made based on the estimated unavoidable costs in accordance with the accounting standard requirement, and the loss arising under the terms of the supplementary agreement is not expected to be materially different from the provision already made in 2023. In 2022, an impairment loss of HK$962 million was recognised in respect of Shenzhen Metro Line 4.

As a result, the Group's recurrent businesses reported a profit of HK$4,281 million in 2023, as compared to HK$157 million in 2022. If the special loss provisions, being provisions for onerous contracts on Stockholms pendeltåg and Mälartåg regional traffic totalling HK$1,022 million in 2023, and the impairment loss on Shenzhen Metro Line 4 of HK$962 million in 2022 had been excluded, our recurrent profit would have been HK$5,303 million, an increase of HK$4,184 million or 373.9%, over 2022.

Total Recurrent EBIT (before Special Loss Provisions) by Businesses

The Group's total recurrent EBIT (including share of profit of associates and joint ventures as well as project study and business development expenses but excluding the above-mentioned special loss provisions) in 2023 was HK$8,122 million, an increase of HK$5,267 million when compared to 2022. Contributions from respective businesses are as follows:

Hong Kong transport operations ("HKTO"): EBIT loss of HK$1,111 million in our transport operations represents an improvement of 76.5% when compared to the loss of HK$4,733 million recorded in 2022. This was contributed by higher revenue, but partly offset by higher operating expenses.

The revenue growth is attributable to (i) the ramp-up in Cross-boundary Service and Airport Express, and strong recovery in High Speed Rail revenue after the removal of anti-pandemic restrictions and phased reopening of links with Mainland China; (ii) the rebound in patronage from our Domestic Service as the impact of COVID-19 generally subsided; (iii) the full year impact after the opening of the East Rail Line Cross-Harbour Extension in May 2022; and (iv) the increase in average fare of our Domestic Service as a result of fare rise and changes in trip mix.

These favourable results were partially offset by (i) higher operating expenses due to higher energy tariff, inflation, enhanced train services to accommodate the increase in both domestic and visitors' patronages, and the incremental costs from the new East Rail Line Cross-Harbour Extension; (ii) higher depreciation from railway asset renewals or commissioning; and (iii) higher variable annual payment to KCRC.

Hong Kong station commercial businesses ("HKSC"): HKSC EBIT profit rebounded by HK$1,522 million or 67.0% to HK$3,792 million, mainly contributed by our Duty Free Shop rental revenue following the reopening of boundary crossing stations in early February 2023.

Rental income from station kiosks along Domestic lines also increased as a result of lower rental concessions amortised in 2023. The impact was partially offset by the overall negative rental reversions of 6.9% on renewals and new lets for station kiosks, reflecting the conservative and cautious operating environment.

Advertising revenue increased by HK$145 million or 17.3% to HK$981 million benefiting from the improved tourism and retail markets.

Hong Kong property rental and management businesses ("HKPR&M"): EBIT profit increased by HK$199 million or 5.2% to HK$3,999 million. The increase was mainly due to less rental concessions amortised during the year, as well as additional contribution from our new malls, being The Wai in July 2023 and THE SOUTHSIDE with the first phase opening in December 2023. These favourable impacts were partly offset by the overall negative rental reversion on shopping malls as the gradual recovery of the retail market was affected by the increasing trend of northbound spending. For the year, our shopping malls recorded the overall negative rental reversions of 8.4% on renewals and new lets. We launched a number of promotional campaigns on our MTR Mobile app and various targeted marketing campaigns to help drive mall traffic and stimulate spending in 2023.

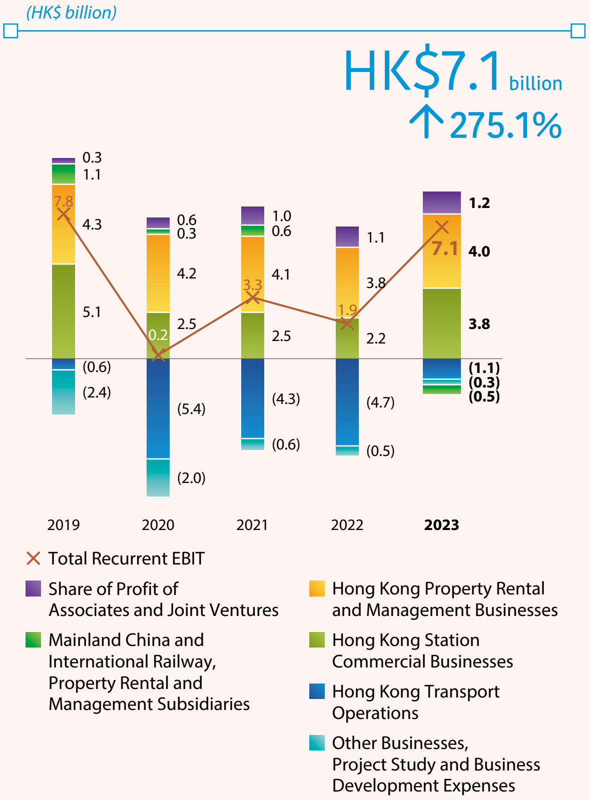
Mainland China and international railway, property rental and management subsidiaries: Except for our operations in Sweden, which still faced challenges owing to the driver shortages and maintenance issues, our Mainland China and international business subsidiaries were financially stable in 2023.

EBIT profit deteriorated by HK$438 million, or 45.5%, to HK$524 million. This was mainly attributable to the adverse impact from the challenges we faced in our Nordic businesses, and the depletion of the local government subsidies for Shenzhen Metro Line 4 in late 2022. These adverse impacts were partly mitigated by patronage recovery as the pandemic eased.

Other businesses, project study and business development expenses: EBIT loss from these businesses was HK$341 million in 2023, when compared to HK$539 million in 2022. The improvement in financial performance was due to increased visitor numbers of Ngong Ping 360.

Total Recurrent EBIT^

(HK$ billion)



^ *Including share of profit of associates and joint ventures, project study and business development expenses, and provisions for onerous contracts in respect of Stockholms pendeltåg and Mälartåg regional traffic totalling HK$1,022 million in 2023, and impairment loss on Shenzhen Metro Line 4 of HK$962 million in 2022*

Share of profit of associates and joint ventures:

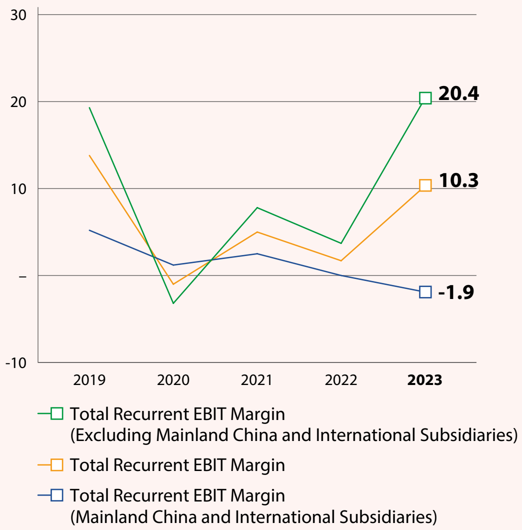
Share of profit of associates and joint ventures increased by HK$164 million or 15.0% to HK$1,259 million in 2023. The increase was mainly due to (i) the increase in profit sharing from Octopus Holdings Limited ("OHL"), which benefited from boundary reopening and improved consumer sentiment due to the lifting of social distancing policies; and (ii) improved performance in our Hangzhou and Beijing operations as patronage rebounded.

Total Recurrent EBIT Margin

Total recurrent EBIT margin had declined since 2019 as we were distressed by the public order events and the pandemic. Following the stabilisation in the number of pandemic cases, EBIT margins rebounded in 2021. Due to the fifth wave of COVID-19 in Hong Kong and other outbreaks in Mainland China, EBIT margins declined to 3.7% and 1.7% in 2022, before and after accounting for the impairment loss on Shenzhen Metro Line 4, respectively. In 2023, following the recovery from the pandemic, EBIT margins increased to 12.0% and 10.3% respectively, before and after accounting for the loss provisions on Stockholms pendeltåg and Mälartåg regional traffic in 2023, respectively.

Total Recurrent EBIT Margin#

(Percentage)



\# *Excluding share of profit of associates and joint ventures but including provisions for onerous contracts in respect of Stockholms pendeltåg and Mälartåg regional traffic totalling HK$1,022 million in 2023, and impairment loss on Shenzhen Metro Line 4 of HK$962 million in 2022*

Interest and Finance Charges

Interest and finance charges for recurrent businesses were HK$1,213 million, representing an increase of 14.3% over 2022. This was mainly due to higher interest rate. A detailed review of the Group's financing activities is featured in the ensuing section.

Income Tax

Tax expenses for recurrent businesses were HK$1,302 million, an increase of 260.7% over 2022 due to improved financial performance.

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

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

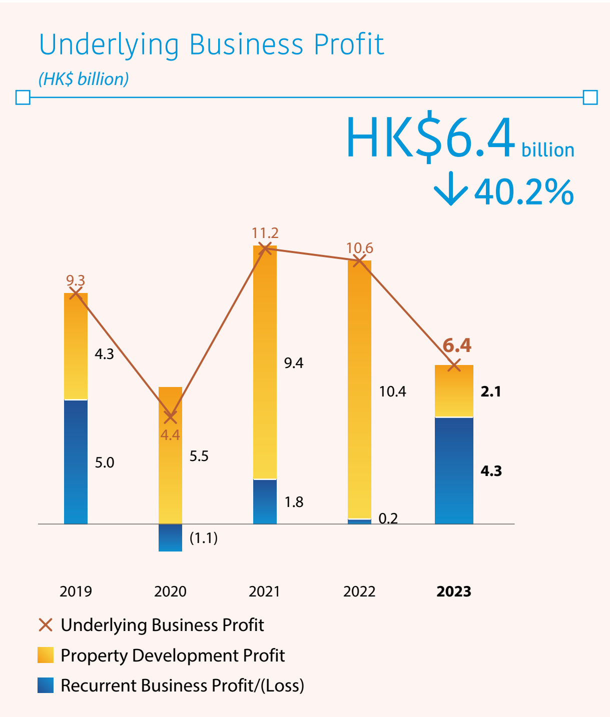
After discussing with the external legal counsels and tax advisor on the approach to the appeal, the Company decided not to pursue its deduction claims in respect of the amortisation of upfront payment and cut-over liabilities during the opening submission before Board of Review. As the Company had already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

Property Development Profit (Post-tax)

The Group's property development profit (post tax) was HK$2,083 million, representing a decrease of 80.1% compared to 2022. Property development profit for 2023 was mainly derived from the initial profit from LOHAS Park Package 11 and residual profits from various completed projects, whereas profits from three development projects were recognised in 2022.

Underlying Business Profit

The Group's underlying business profit was HK$6,364 million, when compared to HK$10,637 million in 2022. This was due to the decrease in Property Development Profit of HK$8,397 million but offset by the increase in Recurrent Business Profit of HK$4,124 million.



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

Gain from fair value measurement of investment properties was HK$1,420 million in 2023, comprising (i) a portion of gain amounting to HK$1,360 million recognised from the initial fair value measurement of our sharing-in-kind property (i.e. THE SOUTHSIDE shopping mall); and (ii) a marginal gain of HK$60 million from fair value remeasurement on investment properties.

The gain from fair value recognition of investment property of HK$1,360 million represented the receipt of our sharing-in-kind shopping mall, THE SOUTHSIDE shopping mall, after considering the outstanding risks and obligations retained in deferred income.

The fair value remeasurement on the Group's investment properties in Hong Kong and Mainland China, which were performed by independent professional valuation firms, resulted in a post-tax fair value remeasurement marginal gain of HK$60 million for the year ended 31 December 2023, compared to a post-tax fair value remeasurement loss of HK$3,076 million in 2022.

Net Profit Attributable to Shareholders of the Company

Taking into account the Group's recurrent businesses, property development businesses and fair value measurement of investment properties, the Group reported a net profit attributable to shareholders of the Company of HK$7,784 million for the year ended 31 December 2023, compared to HK$9,827 million for 2022.

CONSOLIDATED FINANCIAL POSITION

HK$ million	As at 31 December 2023	As at 31 December 2022	Inc./(Dec.) HK$ million	Inc./(Dec.) %
Fixed Assets	**238,636**	229,491	9,145	4.0
Deferred Expenditure	**378**	2,540	(2,162)	(85.1)
Railway Construction in Progress	**4,256**	–	4,256	n/m
Property Development in Progress	**41,728**	41,269	459	1.1
Interests in Associates and Joint Ventures	**12,785**	12,338	447	3.6
Debtors and Other Receivables	**13,756**	13,889	(133)	(1.0)
Cash, Bank Balances and Deposits	**22,375**	16,134	6,241	38.7
Other Assets	**12,512**	11,420	1,092	9.6
Total Assets	**346,426**	327,081	19,345	5.9
Total Loans and Other Obligations	**59,491**	47,846	11,645	24.3
Creditors and Other Liabilities	**82,869**	74,481	8,388	11.3
Obligations Under Service Concession	**10,059**	10,142	(83)	(0.8)
Deferred Tax Liabilities	**15,151**	14,700	451	3.1
Total Liabilities	**167,570**	147,169	20,401	13.9
Net Assets	**178,856**	179,912	(1,056)	(0.6)
Represented by:				
Total Equity Attributable to Shareholders of the Company	**178,344**	179,286	(942)	(0.5)
Non-controlling Interests	**512**	626	(114)	(18.2)
Total Equity	**178,856**	179,912	(1,056)	(0.6)

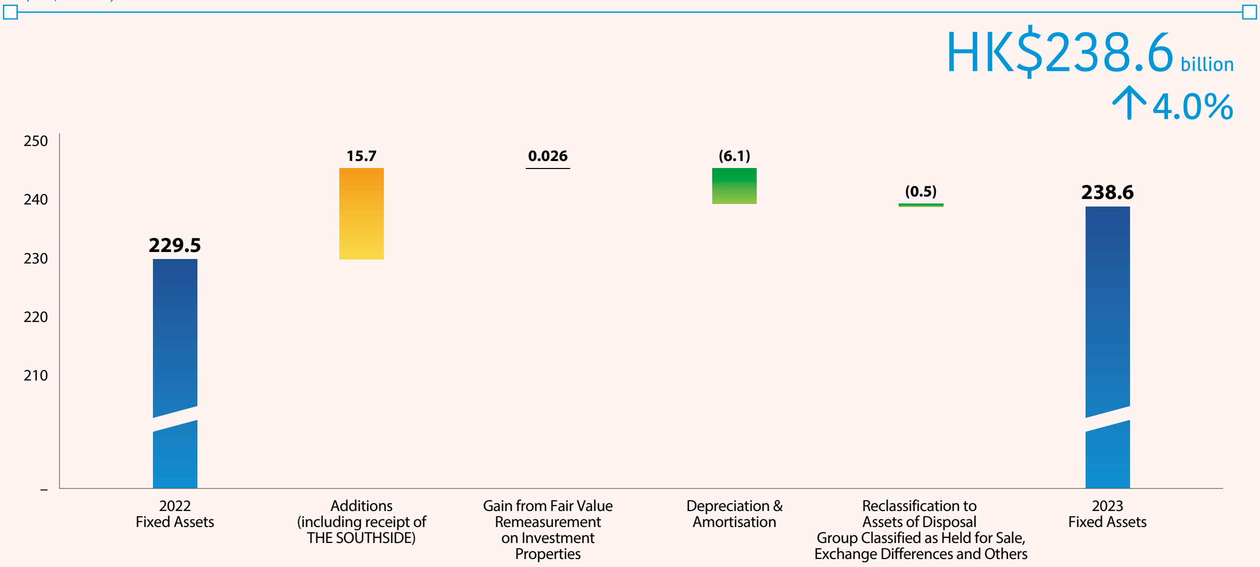
n/m : not meaningful

Fixed Assets

Fixed assets increased by HK$9,145 million to HK$238,636 million, mainly due to total additions of HK$15,694 million, arising from receipt of THE SOUTHSIDE as an investment property; fitting out works to our shopping malls, including The Wai and THE SOUTHSIDE; renewal and upgrade works for our existing Hong Kong railway network and investment property portfolio; and service concession assets in respect of Shenzhen Metro Line 13; as well as the gain from fair value remeasurement on our investment property portfolio of HK$26 million. These factors were partly offset by total depreciation and amortisation of HK$6,104 million for the year.

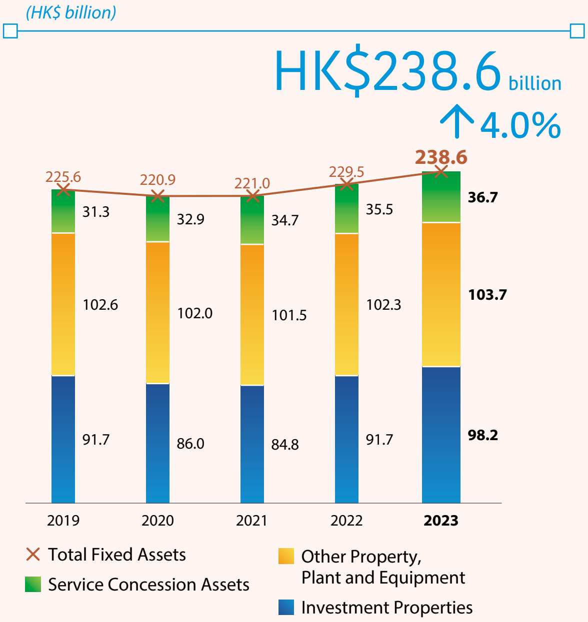
Movements in Fixed Assets

(HK$ billion)



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

Fixed Assets Trend
(HK$ billion)



Deferred Expenditure

Deferred expenditure decreased by HK$2,162 million to HK$378 million, mainly due to transfer of railway project costs to railway construction in progress upon execution of the project agreements with the Government.

Railway Construction in Progress

Railway construction in progress of HK$4,256 million represented the additions and transfer-in related to Tung Chung Line Extension, Tuen Mun South Extension and Kwu Tung Station. Additions related to the Oyster Bay Project were fully offset by the government grant received.

Property Development in Progress

Property development in progress increased slightly by HK$459 million to HK$41,728 million, which was predominantly due to the additions in relation to the Oyster Bay Project.

Interests in Associates and Joint Ventures

Interests in associates and joint ventures increased to HK$12,785 million, which was mainly attributable to share of profit from associates and joint ventures, net of dividend declared.

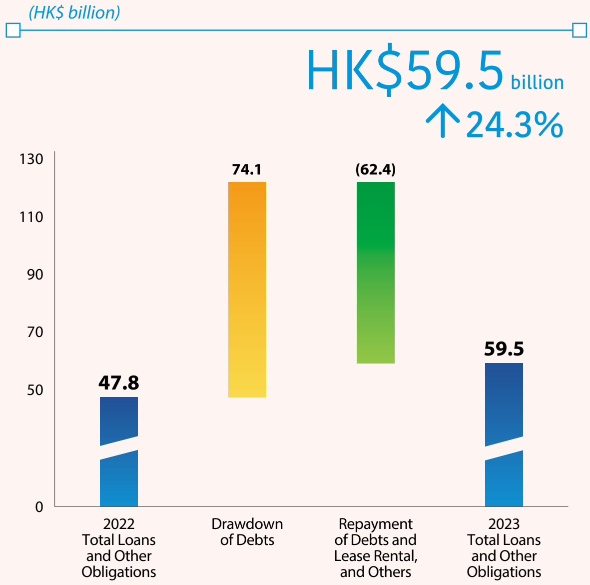
Debtors and Other Receivables

Debtors and other receivables decreased by HK$133 million to HK$13,756 million mainly due to receipts of cash in respect of the Tai Wai property development project, partly offset by increase in debtors as a result of higher revenue.

Total Loans and Other Obligations

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

Movements in Total Loans and Other Obligations
(HK$ billion)



Creditors and Other Liabilities

Creditors and other liabilities increased by HK$8,388 million to HK$82,869 million, which was mainly due to deferred income retained regarding a portion of the gain from the initial fair value measurement of THE SOUTHSIDE shopping mall after considering the outstanding risks and obligations relating to THE SOUTHSIDE Package 3 property development project, and the amount received in respect of our Hong Kong property development.

Total Equity

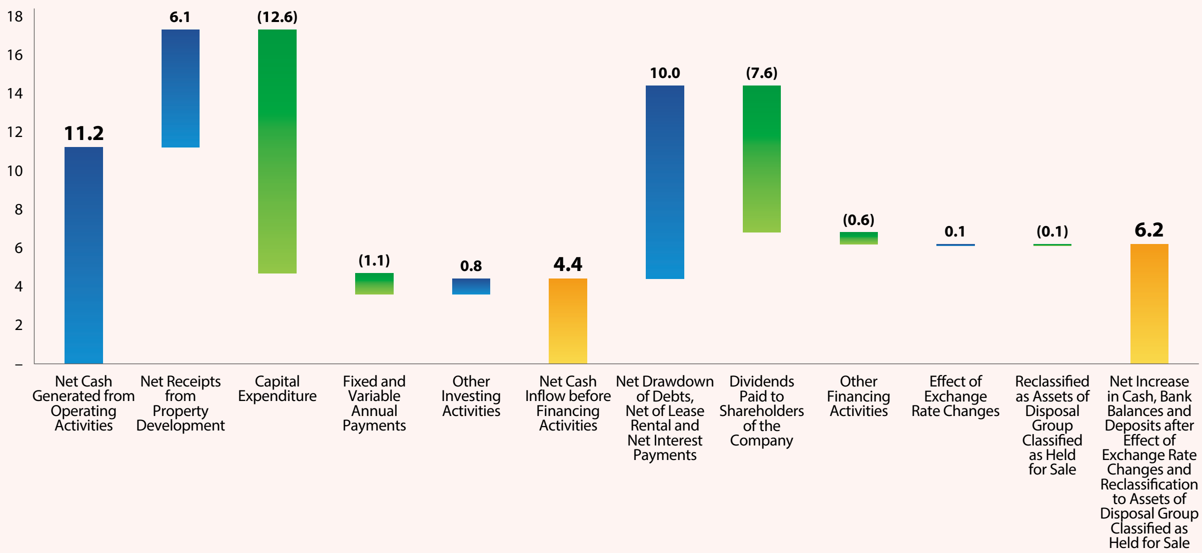
Total equity decreased slightly by HK$1,056 million to HK$178,856 million. This was mainly attributable to payments of the 2022 final and 2023 interim ordinary dividends during the year, decrease in other reserves, but offset by the net profit recorded for the year.

CONSOLIDATED CASH FLOWS

HK$ million	2023	2023	2022	2022
Net Cash Generated from Operating Activities		**11,197**		6,757
Receipts in respect of Property Development	**7,109**		14,162	
Payments in respect of Property Development	**(1,007)**		(9,245)	
Net Receipts from Property Development		**6,102**		4,917
Capital Expenditure		**(12,576)**		(10,808)
Fixed Annual Payments	**(750)**		(750)	
Variable Annual Payments	**(323)**		(260)	
Fixed and Variable Annual Payments		**(1,073)**		(1,010)
Other Investing Activities		**730**		589
Net Cash Inflow before Financing Activities		**4,380**		445
Net Drawdown of Debts, and Net of Lease Rental Payments	**11,311**		4,768	
Net Interest Payments	**(1,306)**		(668)	
Net Drawdown of Debts, Net of Lease Rental and Net Interest Payments		**10,005**		4,100
Dividends Paid to Shareholders of the Company		**(7,595)**		(8,562)
Other Financing Activities		**(537)**		(109)
Increase/(Decrease) in Cash, Bank Balances and Deposits before Effect of Exchange Rate Changes and Reclassification to Assets of Disposal Group Classified as Held for Sale		**6,253**		(4,126)
Effect of Exchange Rate Changes		**82**		(710)
Reclassification to Assets of Disposal Group Classified as Held for Sale		**(94)**		–
Increase/(Decrease) in Cash, Bank Balances and Deposits after Effect of Exchange Rate Changes and Reclassification to Assets of Disposal Group Classified as Held for Sale		**6,241**		(4,836)
Cash, Bank Balances and Deposits as at 1 January		**16,134**		20,970
Increase/(Decrease) in Cash, Bank Balances and Deposits after Effect of Exchange Rate Changes and Reclassification to Assets of Disposal Group Classified as Held for Sale		**6,241**		(4,836)
Cash, Bank Balances and Deposits as at 31 December		**22,375**		16,134

Cash Flows for the Year Ended 31 December 2023

(HK$ billion)



Net Cash Generated from Operating Activities

Net cash generated from operating activities increased by HK$4,440 million to HK$11,197 million in 2023 from HK$6,757 million in 2022. This resulted mainly from higher recurrent business profit due to gradual recovery from the pandemic and the reopening of rail links with Mainland China.

Net Receipts from Property Development

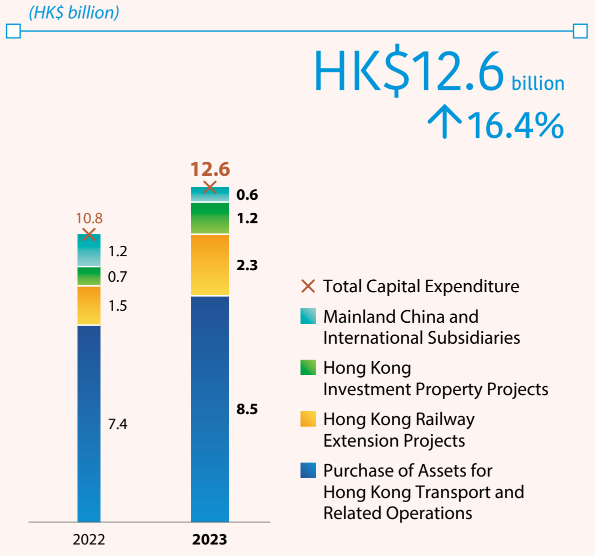
Net receipts from property development were HK$6,102 million, comprising (i) cash receipts of HK$7,109 million mainly from the Tai Wai Station property development project, various LOHAS Park packages and Ho Man Tin Station package, which were partially offset by (ii) cash payments of HK$1,007 million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

Capital Expenditure

In 2023, capital expenditure amounted to HK$12,576 million. This comprised HK$8,463 million for investments in additional assets such as station renovation works, new trains and signalling systems for existing Hong Kong railways and related operations; HK$2,309 million for Hong Kong railway extension projects; HK$1,250 million for investment properties; and HK$554 million for Mainland China and overseas subsidiaries such as Shenzhen Metro Line 13.

Total Capital Expenditure

(HK$ billion)



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

In 2023, net drawdown of debts, net of lease rental and net interest payments of HK$10,005 million comprised (i) proceeds of HK$74,057 million from loans and capital market instruments; offset by (ii) repayment of HK$62,746 million mainly relating to loans and (iii) net interest payment of HK$1,306 million.

Dividends Paid to Shareholders of the Company

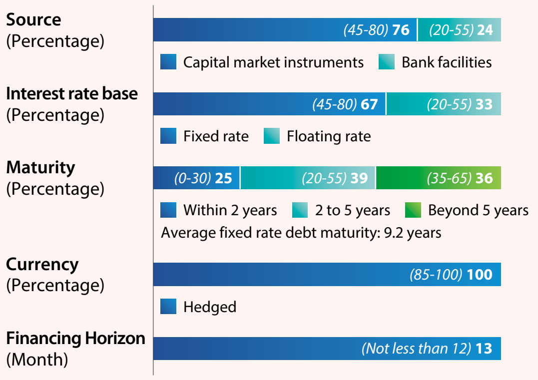
In 2023, the Group paid dividends of HK$7,595 million in cash (being the 2022 final dividend of HK$0.89 per share and the 2023 interim dividend of HK$0.42 per share), as compared to HK$8,562 million in 2022 (being the 2021 final dividend of HK$1.02 per share and the 2022 interim dividend of HK$0.42 per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

FINANCING ACTIVITIES

Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile** as at 31 December 2023



The United States Federal Reserve hiked interest rates four times in 2023 by a total of 1.0%, bringing the Federal Funds Target Rate to a range of 5.25%-5.5% p.a. The Secured Overnight Financing Rate rose from 4.30% p.a. at the beginning of the year to 5.38% p.a. by the end of the year.

The 10-year U.S. Treasury yield started the year at 3.87% p.a., reaching a high of 4.99% p.a. in October before falling back to 3.88% p.a. by the end of the year.

Although the 3-month HKD Hibor appeared to rise modestly from 4.99% p.a. at the beginning of the year to 5.15% p.a. by the end of the year, the average rate for the full year increased more significantly from 2.15% p.a. in 2022 to 4.63% p.a. in 2023. Similar to the 10-year U.S. Treasury yield, the HKD 10-year swap rate started the year at 3.86% p.a. and reached a high of 4.72% p.a. in October before falling back to 3.36% p.a. by the end of the year. Taking advantage of the dips in the 10-year swap rate and the inverted yield curve, the Company entered into several interest rate swaps to lock in longer tenor interest rates for its debt portfolio.

In 2023, the Company arranged approximately HK$22.6 billion in financing, comprising HK$16.1 billion in MTN issuances with maturities ranging from one to five years and HK$6.5 billion in bank loans with tenors ranging from two to five years. Approximately HK$1.3 billion of the financing was arranged under our Sustainable Finance Framework, with proceeds earmarked for eligible investments.

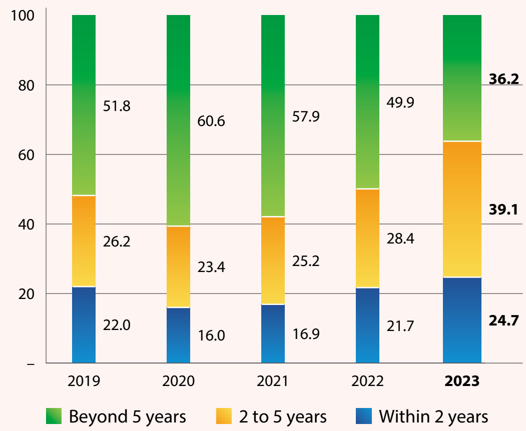
The Group's consolidated gross debt position at the end of 2023 was HK$59.5 billion, with a cash and deposit balance of HK$22.4 billion and undrawn committed facilities of over HK$18 billion.

Maturity Profile

The graph below shows the maturity profiles of the Company's interest-bearing borrowings at year-end 2019-2023. The spread of the maturities of the Company's borrowings helps diversify the refinancing risk of the Company.

Maturity Profile

(Percentage)

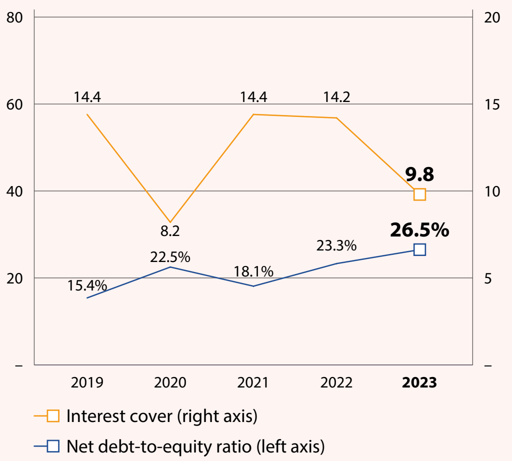


Net Debt-to-equity Ratio and Interest Cover

The Group's net debt-to-equity ratio increased by 3.2 percentage points to 26.5% at year-end 2023 from 23.3% at year-end 2022, mainly due to an increase in net debt for capital expenditures for new railway projects. The Group's interest cover decreased from 14.2 times in 2022 to 9.8 times in 2023.

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

Net Debt-to-equity Ratio and Interest Cover

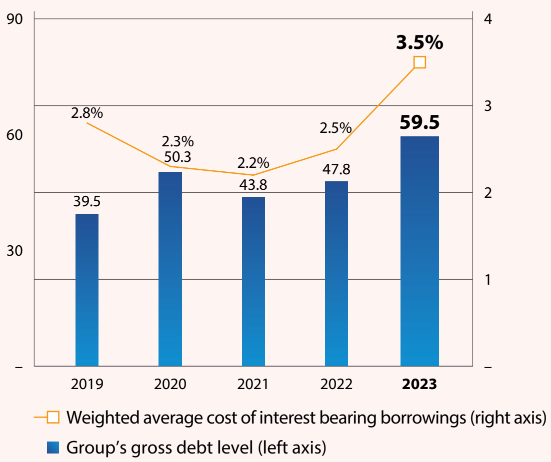


Cost of Borrowing

The Group's consolidated gross debt position increased to HK$59,491 million as at year-end 2023 from HK$47,846 million at year-end 2022. The weighted average cost of the Group's interest-bearing borrowings increased to 3.5% p.a. in 2023 from 2.5% p.a. in 2022, mainly due to higher average cost of floating rate borrowing resulting from higher HKD Hibor.

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

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



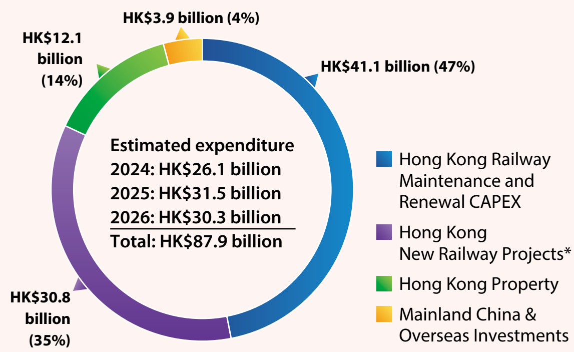
Capital Expenditure and Investment

The Group's capital expenditure and investment can be categorised into the following: Hong Kong railway projects (further classified into maintenance work for existing railways and new projects), Hong Kong property investment and development, and Mainland China and overseas investment. Total spending from 2024 to 2026 is estimated at around HK$87.9 billion.

Capital expenditure on Hong Kong railway projects will continue to constitute a significant portion of capital expenditure in 2024-2026, following the signing of project agreements for the Oyster Bay project, Tung Chung Line Extension, Tuen Mun South Extension and Kwu Tung Station. The capital works expenditure and funding terms of the other RDS 2014 projects can only be ascertained after entering into the relevant project agreements with Government.

The Group believes that, based on its cash, bank balances and deposits of more than HK$22 billion, total available committed banking facilities of more than HK$18 billion as at 31 December 2023, and ready access to both the loan and debt capital markets, it will have sufficient financing capacity to fund its capital expenditure and investment programme.

Capital Expenditure and Investment (2024–2026)



* *Including planning and design CAPEX, but excluding related construction CAPEX of new railway projects that are subject to the signing of project agreements*

Credit Ratings (as of 7 March 2024)

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

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