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"). The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. Material accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued a new HKFRS and a number of amendments to HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2023. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group are disclosed in note 2A(iii)(a). The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 52).

2 Material 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 2M); and
- derivative financial instruments (note 2T).

(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.

(iii) Changes in Accounting Policies

(a) Amended HKFRSs

The impacts of adopting certain amended HKFRSs that are relevant to the Group are discussed below. None of the developments 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 in this annual report.

Amendments to HKAS 1, *Presentation of Financial Statements* and HKFRS Practice Statement 2, *Making Materiality Judgements: Disclosure of Accounting Policies*

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and removed certain immaterial accounting policies.

Amendments to HKAS 12, *Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented. Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in note 40B, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

A Basis of Preparation of the Consolidated Financial Statements *(continued)*

Amendments to HKAS 12, *Income Taxes: International Tax Reform – Pillar Two Model Rules*

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("OECD") (income tax arising from such tax laws is hereafter referred to as "Pillar Two income taxes"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application. The Group provided the additional disclosures in note 16C.

(b) New HKICPA Guidance on the Accounting Implications of the Abolition of the MPF-LSP Offsetting Mechanism

In June 2022, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government" or "Government") gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will come into effect from 1 May 2025 (the "Transition Date"). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund ("MPF") scheme to reduce the long service payment ("LSP") in respect of an employee's service from the Transition Date (the abolition of the "offsetting mechanism"). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19, *Employee Benefits*, that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit.

To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its long service payment liability and has applied the above HKICPA guidance. This has no material impact on the Group's results and financial position for the prior periods, and the Group recognised total charges of HK$21 million in the consolidated statement of profit or loss for the year ended 31 December 2023.

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 2G(ii)).

2 Material Accounting Policies *(continued)*

D Associates and Joint Ventures

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets and any impairment loss relating to the investment (note 2G(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 2G(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 2G(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 (notes 2H and 2G(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 (note 2H). 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 (notes 2H and 2G(ii)).

2 Material Accounting Policies *(continued)*

E Fixed Assets *(continued)*

Assets under construction include capital works on operating railway and are stated at cost less impairment losses (note 2G(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 (notes 2H and 2G(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.

2 Material Accounting Policies *(continued)*

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 2H and 2G(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 self-occupied leasehold 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 2L.

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 2Y(ii).

G Impairment of Assets

(i) Credit Losses from Financial Instruments, Contract Assets and Lease Receivables

For the Group's trade receivables, contract assets and lease receivables, the Group recognises a loss allowance for ECL which is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs". Financial assets measured at fair value are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 Material Accounting Policies *(continued)*

G Impairment of Assets *(continued)*

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including right-of-use assets and service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statement of profit or loss in the year in which the reversals are recognised.

H Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties (note 2E(i)), assets under construction (note 2H(iii)) and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(iii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

- Land and Buildings

Self-occupied buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

- Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

2 Material Accounting Policies *(continued)*

H Depreciation and Amortisation *(continued)*

- Plant and Equipment

Rolling stock and components	3 – 42 years
Platform screen doors	10 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	5 – 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.

I 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 2G(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 2G(ii)). Upon commissioning of the railway line, the relevant costs are transferred to fixed assets (note 2E).

J 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 or distributions of the assets received as property development in progress. In cases where payments or distributions of the assets 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 profits earned from such operations is recognised in the consolidated statement of profit or loss on the basis of note 2K(iii) after netting off any related balance in property development in progress at that time.

2 Material Accounting Policies *(continued)*

K 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 or distributions of the assets 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 or distributions of the assets received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in the consolidated statement of financial position under "Creditors, other payables and provisions". 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 distributions of the assets of the developments in excess of the balance in property development in progress (i.e. resulting in deferred income), profit is recognised based on the fair value of such assets at the time of receipt, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development; and
- 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 2L and included within properties held for sale.

Upon recognition of profit, property development in progress relating to that development is charged to the consolidated statement of profit or loss, if any. Deferred income arising from the outstanding risks and obligations retained by the Group in connection with the development is included in the consolidated statement of financial position under "Creditors, other payables and provisions". The outstanding risks and obligations retained by the Group in connection with the development will be reassessed at the end of each reporting period. Any reduction in the amount of outstanding risks and obligations will be accounted for as a decrease in deferred income and a corresponding profit in that reporting period.

(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, other payables and provisions".

(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.

L 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 2K(iii).

For those properties in Mainland China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

When properties held for sale are sold, the carrying amount of those properties is recognised in the consolidated statement of profit or loss.

2 Material Accounting Policies *(continued)*

M 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. 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.

N 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 2H and 2G(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

O Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (note 2Y) 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 2G(i) and are reclassified to receivables when the right to the consideration has become unconditional (note 2Q).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (note 2Y). 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 2Q).

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 2Z).

P 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.

Q 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 2O). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (note 2G(i)).

R 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 2Z).

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.

S 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.

T Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are recognised at fair value and are remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

2 Material Accounting Policies *(continued)*

T Derivative Financial Instruments and Hedging Activities *(continued)*

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated statement of profit or loss in the periods when the hedged item is recognised in the consolidated statement of profit or loss. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the consolidated statement of profit or loss.

(iii) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated statement of profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) Derivatives that do not qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss.

U 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 from defined benefit plans includes defined benefit retirement schemes operated or participated by the Group and long service payment ("LSP") under the Hong Kong Employment Ordinance. The amount is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years and discounting that amount. For defined benefit retirement schemes' obligation, the amount is estimated after deducting the fair value of scheme assets. For LSP obligation, the estimated amount of future benefit is determined after deducting the negative service cost arising from the accrued benefits derived from the Group's mandatory contributions to the retirement schemes that have been vested with employees, which are deemed to be contributions from the relevant employees.

The calculation of net obligation from defined benefit plans is performed by a qualified actuary using the Projected Unit Credit Method. For defined benefit retirement schemes, 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.

2 Material Accounting Policies *(continued)*

U Employee Benefits *(continued)*

When the benefits of a plan are changed, or when a plan 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 consolidated statement of profit or loss 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 plans are recognised in other comprehensive income and reflected immediately in retained profits. Remeasurements comprise of actuarial gains and losses, the return on scheme assets in defined benefit retirement schemes (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 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 capital reserve for the purchased shares, and decrease in retained profits 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.

V 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 and does not give rise to equal taxable and deductible temporary differences (provided they are not part of a business combination). Deferred tax is not recognised for those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the OECD.

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.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

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.

2 Material Accounting Policies *(continued)*

W 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, other payables and provisions. 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, other payables and provisions 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 2G(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.

X 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 expected net cost of continuing with the contract, which is determined based on the incremental cost of fulfilling the obligation under that contract and an allocation of other costs that relate directly to fulfilling that contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

2 Material Accounting Policies *(continued)*

Y 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.

Z 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.

AA 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.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

AB 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.

2 Material Accounting Policies *(continued)*

AC 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.

AD 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.

AE Disposal Group Held for Sale

Disposal group comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held for sale, property, plant and equipment are no longer depreciated.

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 HKSAR Government, KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement.

Pursuant to the Service Concession Agreement ("SCA"), KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the franchise period (as it relates to the KCRC railway) is extended. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay to KCRC fixed annual payments and variable annual payments (calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds).

Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value.

Details of the Rail Merger are disclosed in the Company's circular dated 3 September 2007.

B Operating Arrangements for the High Speed Rail

On 23 August 2018, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") in substantially the same manner as the existing railway network. Under the supplemental service concession agreement that was executed on 23 August 2018 ("SSCA-HSR"), the operating period with respect to the HSR is for an initial term of 10 years from 23 September 2018 ("Concession Period (High Speed Rail)"), which may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA-HSR. Under the SSCA-HSR, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the High Speed Rail (with any new assets acquired being classified as "additional concession property (High Speed Rail)"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold (High Speed Rail)"), the Company will be reimbursed for any above-threshold expenditure at the end of the concession period with such reimbursement to be on the basis of depreciated book value.

Details of the SSCA-HSR are disclosed in the Company's announcement dated 23 August 2018.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for the High Speed Rail and the Shatin to Central Link *(continued)*

C Operating Arrangements for the Shatin to Central Link

The Shatin to Central Link ("SCL") was commissioned in two parts:

(a) The first part of the SCL extended the previously existing Ma On Shan Railway from Tai Wai Station to the West Rail Line via East Kowloon to form the Tuen Ma Line. The Tuen Ma Line was in turn commissioned in two phases:

(i) The First Phase of Tuen Ma Line extended the previously existing Ma On Shan Railway from Tai Wai Station to Kai Tak Station with two new stations at Hin Keng and Kai Tak, and incorporating one existing station at Diamond Hill, and was commissioned on 14 February 2020.

(ii) The Second Phase of Tuen Ma Line extends from Kai Tak Station to Hung Hom Station with two new stations at Sung Wong Toi and To Kwa Wan and incorporating one existing station at Ho Man Tin, and it integrated the existing First Phase of Tuen Ma Line with the West Rail Line into a single railway line known as the Tuen Ma Line, and was commissioned on 27 June 2021.

(b) The second part of the SCL extended the East Rail Line (Original) from Hung Hom Station to Admiralty Station via the new Exhibition Centre Station.

Relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements are detailed below.

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the First Phase of Tuen Ma Line in substantially the same manner as the existing railway network for a period of two years from 14 February 2020 including a supplemental service concession agreement ("SSCA1-SCL") with KCRC.

On 21 June 2021, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the Tuen Ma Line, in substantially the same manner as the existing railway network for a period of two years from 27 June 2021 including the supplemental service concession agreement ("SSCA2-SCL") signed with KCRC. The SSCA2-SCL replaced the SSCA1-SCL.

On 10 May 2022, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the SCL as a whole in substantially the same manner as the existing railway network but for a period of ten years from 15 May 2022, being the date of commissioning and commercial operation of the second part of the SCL, including the supplemental service concession agreement ("SSCA3-SCL") signed with KCRC. The SSCA3-SCL superseded and replaced the SSCA2-SCL. Prior to the expiry of this ten-year period, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a legally binding agreement in relation to an extension of SCL concession (including, without limitation, that the Company shall operate the SCL pursuant to a service concession as defined in the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) ("MTR Ordinance")), which shall apply to the SCL the Operating Agreement dated 9 August 2007 and which should in accordance with the Operating Agreement dated 9 August 2007, enable the Company to earn a commercial rate of return from its operation of the SCL.

Details of the SSCA1-SCL, SSCA2-SCL and SSCA3-SCL are disclosed in the Company's announcements dated 11 February 2020, 21 June 2021 and 10 May 2022 respectively.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	**2023**	2022
Domestic Service	**13,995**	11,245
Cross-boundary Service	**2,206**	4
High Speed Rail	**2,503**	1,401
Airport Express	**664**	128
Light Rail and Bus	**658**	561
Others	**105**	65
	20,131	13,404

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service) and Tuen Ma Lines. Others include mainly by-law infringement surcharge, Octopus load agent fees and other rail-related income.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2023	2022
Duty free shops and kiosks	**3,429**	1,544
Advertising	**981**	836
Telecommunication income	**603**	616
Other station commercial income	**104**	81
	5,117	3,077

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2023	2022
Property rental income	**4,795**	4,525
Property management income	**284**	254
	5,079	4,779

7 Revenue and Expenses Relating to Mainland China and International Subsidiaries

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

	2023		2022	
in HK$ million	Revenue	Expenses*	Revenue	Expenses*
Melbourne Train	**13,787**	**12,787**	12,812	11,815
Sydney Metro North West	**867**	**794**	662	632
Sydney Metro City & Southwest	**1,318**	**1,243**	2,234	2,099
MTR Nordic**	**4,809**	**5,206**	5,232	5,307
London Elizabeth Line	**3,178**	**3,143**	2,721	2,648
Shenzhen Metro Line 4 ("SZL4")	**792**	**680**	651	675
Shenzhen Metro Line 13 ("SZL13") (note 21C)	**429**	**429**	956	956
Others	**775**	**601**	748	619
	25,955	**24,883**	26,016	24,751
Property development in Mainland China	**–**	**13**	173	114
Total Mainland China and international subsidiaries	**25,955**	**24,896**	26,189	24,865

* Expenses include staff costs of HK$11,092 million (2022: HK$10,506 million) (note 10A) and maintenance and related work costs of HK$3,548 million (2022: HK$3,607 million).

** MTR Nordic comprises the Mälartåg, MTR Tech, MTRX (note 49), Stockholm Commuter Rail ("Stockholms pendeltåg") and Stockholm Metro operations in Sweden.

In 2023, due to on-going manpower shortage and maintenance issues that had inevitable impact on financial performance, the Group entered into a supplemental agreement with the Stockholm Public Transport Authority to terminate the Stockholms pendeltåg concession effective 2 March 2024, resulting in a charge to the Group's profit or loss of approximately HK$0.7 billion in 2023. The loss was comprised of (i) the "exit fee" payable pursuant to the supplemental agreement; (ii) a provision for certain assets to be transferred to the new operator for no consideration; and (iii) a provision for wind-down costs and certain assets which would need to be written off. The provision for wind-down costs also included other net costs which were anticipated to be incurred in meeting the Group's obligations under the assignment agreement until the franchise termination in March 2024.

The Mälartåg operations were also impacted by the operational challenges. After discussions with the client, Mälardalstrafik, to agree potential commercial and contractual remedies, the Group entered into a supplementary agreement with Mälardalstrafik in February 2024 to terminate the Mälartåg concession effective 16 June 2024. As at 31 December 2023, an onerous contract provision of approximately HK$0.3 billion was made based on the estimated unavoidable costs under the Mälartåg concession. The loss arising under the terms of the supplementary agreement is not expected to be materially different from the provision already made in 2023.

As a result of the above, in aggregate, HK$1,022 million was charged under "Provisions for onerous contracts and impairment loss" in the consolidated statement of profit or loss for the year ended 31 December 2023.

8 Revenue from Other Businesses

Revenue from other businesses comprises income from:

in HK$ million	**2023**	2022
Ngong Ping 360	**378**	83
Consultancy business	**213**	175
Miscellaneous businesses	**109**	105
	700	363

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 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 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 property 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 property management services in Mainland China.

(vi) Mainland China property development: Property development activities in Mainland China.

(vii) Other businesses: Businesses not directly relating to transport services or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business, investment in Octopus Holdings Limited and the provision of project management services to the HKSAR Government.

9 Segmental Information *(continued)*

The results of the reportable segments and reconciliation to the corresponding consolidated totals in the consolidated financial statements are shown below:

	Hong Kong transport services				Mainland China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international railway, property rental and management businesses	Mainland China property development	Other businesses	Un-allocated amount	Total
2023									
Revenue from contracts with customers within the scope of HKFRS 15	20,131	1,701	369	–	25,812	–	639	–	48,652
– Recognised at a point in time	18,764	29	–	–	5,011	–	374	–	24,178
– Recognised over time	1,367	1,672	369	–	20,801	–	265	–	24,474
Revenue from other sources	–	3,416	4,710	–	143	–	61	–	8,330
– Lease payments that are fixed or depend on an index or a rate	–	3,212	4,528	–	140	–	7	–	7,887
– Variable lease payments that do not depend on an index or a rate	–	204	182	–	3	–	–	–	389
– Others	–	–	–	–	–	–	54	–	54
Total revenue	20,131	5,117	5,079	–	25,955	–	700	–	56,982
Operating expenses	(14,177)	(560)	(1,063)	–	(24,883)	(13)	(579)	–	(41,275)
Project study and business development expenses	–	–	–	–	(260)	–	–	(137)	(397)
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	5,954	4,557	4,016	–	812	(13)	121	(137)	15,310
Hong Kong property development profit from share of surplus, income and interest in unsold properties	–	–	–	2,329	–	–	–	–	2,329
Gain/(loss) from fair value measurement of investment properties	–	–	1,522	–	(136)	–	–	–	1,386
Operating profit/(loss) before depreciation, amortisation and variable annual payment	5,954	4,557	5,538	2,329	676	(13)	121	(137)	19,025
Depreciation and amortisation	(5,232)	(249)	(11)	–	(548)	–	(65)	–	(6,105)
Provisions for onerous contracts	–	–	–	–	(1,022)	–	–	–	(1,022)
Variable annual payment	(1,833)	(516)	(6)	–	–	–	–	–	(2,355)
Share of profit of associates and joint ventures	–	–	–	–	757	–	502	–	1,259
(Loss)/profit before interest, finance charges and taxation	(1,111)	3,792	5,521	2,329	(137)	(13)	558	(137)	10,802
Interest and finance charges	–	–	–	–	2	74	–	(1,215)	(1,139)
Income tax	–	–	–	(294)	(322)	(13)	–	(946)	(1,575)
(Loss)/profit for the year ended 31 December 2023	(1,111)	3,792	5,521	2,035	(457)	48	558	(2,298)	8,088
Assets									
Fixed assets	130,049	3,608	98,002	–	6,505	–	472	–	238,636
Other segment assets	7,576	903	859	1,069	11,277	3,416	1,129	18,501	44,730
Property management rights	–	–	10	–	–	–	–	–	10
Railway construction in progress	4,256	–	–	–	–	–	–	–	4,256
Property development in progress	–	–	–	41,728	–	–	–	–	41,728
Deferred expenditure	374	–	–	3	1	–	–	–	378
Deferred tax assets	–	–	–	–	551	18	–	34	603
Investments in securities	–	–	–	–	11	446	405	–	862
Properties held for sale	–	–	–	1,927	–	12	–	–	1,939
Interests in associates and joint ventures	–	–	–	–	11,074	–	1,711	–	12,785
Assets of disposal group classified as held for sale	–	–	–	–	499	–	–	–	499
Total assets	142,255	4,511	98,871	44,727	29,918	3,892	3,717	18,535	346,426
Liabilities									
Segment liabilities	25,301	2,208	2,793	37,637	12,066	369	1,642	75,396	157,412
Obligations under service concession	9,898	–	–	–	161	–	–	–	10,059
Liabilities of disposal group classified as held for sale	–	–	–	–	99	–	–	–	99
Total liabilities	35,199	2,208	2,793	37,637	12,326	369	1,642	75,396	167,570
Other information									
Capital expenditure on:									
Fixed assets	8,394	276	1,253	–	682	–	31	–	10,636
Deferred expenditure	183	–	–	3	1	–	–	–	187
Railway construction in progress	2,352	–	–	–	–	–	–	–	2,352
Property development in progress	–	–	–	1,572	–	–	–	–	1,572

9 Segmental Information *(continued)*

	Hong Kong transport services				Mainland China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international railway, property rental and management businesses	Mainland China property development	Other businesses	Un-allocated amount	Total
2022									
Revenue from contracts with customers within the scope of HKFRS 15	13,404	1,543	333	–	25,886	173	323	–	41,662
– Recognised at a point in time	12,163	19	–	–	4,819	173	122	–	17,296
– Recognised over time	1,241	1,524	333	–	21,067	–	201	–	24,366
Revenue from other sources	–	1,534	4,446	–	130	–	40	–	6,150
– Lease payments that are fixed or depend on an index or a rate	–	1,520	4,335	–	128	–	4	–	5,987
– Variable lease payments that do not depend on an index or a rate	–	14	111	–	2	–	–	–	127
– Others	–	–	–	–	–	–	36	–	36
Total revenue	13,404	3,077	4,779	–	26,016	173	363	–	47,812
Operating expenses	(12,713)	(522)	(964)	–	(24,751)	(114)	(511)	–	(39,575)
Project study and business development expenses	–	–	–	–	(255)	–	–	(71)	(326)
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	691	2,555	3,815	–	1,010	59	(148)	(71)	7,911
Hong Kong property development profit from share of surplus, income and interest in unsold properties	–	–	–	11,589	–	–	–	–	11,589
(Loss)/gain from fair value measurement of investment properties	–	–	(814)	–	4	–	–	–	(810)
Operating profit/(loss) before depreciation, amortisation and variable annual payment	691	2,555	3,001	11,589	1,014	59	(148)	(71)	18,690
Depreciation and amortisation	(5,151)	(237)	(13)	–	(303)	–	(65)	–	(5,769)
Impairment loss	–	–	–	–	(962)	–	–	–	(962)
Variable annual payment	(273)	(48)	(2)	–	–	–	–	–	(323)
Share of profit of associates and joint ventures	–	–	–	–	695	–	400	–	1,095
(Loss)/profit before interest, finance charges and taxation	(4,733)	2,270	2,986	11,589	444	59	187	(71)	12,731
Interest and finance charges	–	–	–	–	(59)	79	–	(1,002)	(982)
Income tax	–	–	–	(1,176)	(294)	(71)	–	(67)	(1,608)
(Loss)/profit for the year ended 31 December 2022	(4,733)	2,270	2,986	10,413	91	67	187	(1,140)	10,141
Assets									
Fixed assets	127,055	3,689	91,316	–	6,875	49	507	–	229,491
Other segment assets	7,451	486	818	3,117	10,499	4,678	954	9,926	37,929
Goodwill and property management rights	–	–	11	–	50	–	–	–	61
Railway construction in progress	–	–	–	–	–	–	–	–	–
Property development in progress	–	–	–	41,269	–	–	–	–	41,269
Deferred expenditure	2,428	–	63	49	–	–	–	–	2,540
Deferred tax assets	–	–	–	–	569	9	–	28	606
Investments in securities	–	–	–	–	12	619	328	–	959
Properties held for sale	–	–	–	1,877	–	11	–	–	1,888
Interests in associates and joint ventures	–	–	–	–	10,737	–	1,601	–	12,338
Total assets	136,934	4,175	92,208	46,312	28,742	5,366	3,390	9,954	327,081
Liabilities									
Segment liabilities	24,050	1,834	2,526	31,962	10,884	834	1,886	63,051	137,027
Obligations under service concession	9,976	–	–	–	166	–	–	–	10,142
Total liabilities	34,026	1,834	2,526	31,962	11,050	834	1,886	63,051	147,169
Other information									
Capital expenditure on:									
Fixed assets	7,678	582	578	–	1,245	–	26	–	10,109
Deferred expenditure	1,480	–	34	25	–	–	–	–	1,539
Railway construction in progress	61	–	–	–	–	–	–	–	61
Property development in progress	–	–	–	9,843	–	–	–	–	9,843

9 Segmental Information *(continued)*

For the year ended 31 December 2023, profit attributable to shareholders of the Company arising from recurrent businesses in Hong Kong of HK$4,940 million (2022: HK$384 million) represents (i) the profit for the year of HK$7,238 million (2022: HK$1,524 million) arising from recurrent businesses in Hong Kong (after excluding gain from fair value measurement of investment properties of HK$1,522 million (2022: loss of HK$814 million)) and (ii) un-allocated expenses of HK$2,298 million (2022: HK$1,140 million) in Hong Kong.

For the year ended 31 December 2023, loss attributable to shareholders of the Company arising from recurrent businesses outside Hong Kong of HK$659 million (2022: HK$227 million) represents (i) the loss for the year of HK$355 million (2022: profit of HK$87 million) arising from recurrent business outside Hong Kong (after excluding loss from fair value measurement of investment properties of HK$136 million (2022: gain of HK$4 million) and related income tax credit of HK$34 million (2022: HK$nil)), and (ii) net of profit attributable to non-controlling interests of HK$304 million (2022: HK$314 million).

For the year ended 31 December 2023, profit attributable to shareholders of the Company arising from fair value measurement of investment properties of HK$1,420 million (2022: loss of HK$810 million) represents gain from fair value remeasurement on investment properties of HK$26 million (2022: loss of HK$3,076 million), gain from fair value measurement of investment properties on initial recognition from property development of HK$1,360 million (2022: HK$2,266 million) and related income tax credit of HK$34 million (2022: HK$nil).

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, 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 2023, revenue from one customer (2022: one customer) of Mainland China and international railway, property rental and management businesses segment has exceeded 10% of the Group's revenue. Approximately 22.31% of the Group's total revenue was attributable to the customer (2022: 17.21%).

For the year ended 31 December 2023, profit before tax attributable to joint operations of HK$3,695 million (2022: HK$13,739 million) was recognised.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, goodwill and property management rights, railway construction in progress, property development in progress, deferred expenditure and interests in associates and joint ventures ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment properties, other property, plant and equipment, railway construction in progress and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, goodwill and property management rights and interests in associates and joint ventures.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2023**	2022	**2023**	2022
Hong Kong SAR (place of domicile)	**30,962**	21,586	**280,212**	267,988
Australia	**15,972**	15,708	**900**	918
Mainland China and Macao SAR	**2,027**	2,553	**16,554**	16,229
Sweden	**4,809**	5,232	**116**	557
United Kingdom	**3,212**	2,733	**11**	7
	26,020	26,226	**17,581**	17,711
	56,982	47,812	**297,793**	285,699

As at 31 December 2023, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK$40,918 million (2022: HK$45,510 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	2023	2022
Amounts charged to consolidated statement of profit or loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**6,917**	6,341
– maintenance and related works for Hong Kong transport operations	**123**	100
– other expense line items for Hong Kong transport operations	**109**	164
– expenses relating to Hong Kong station commercial businesses	**136**	119
– expenses relating to Hong Kong property rental and management businesses	**193**	173
– expenses relating to Mainland China and international subsidiaries	**11,092**	10,506
– expenses relating to other businesses	**459**	545
– project study and business development expenses	**200**	202
– Hong Kong property development profit from share of surplus, income and interest in unsold properties	**11**	10
Amounts capitalised in the consolidated statement of financial position under:		
– assets under construction and other projects	**1,085**	1,386
– service concession assets	**525**	500
– railway construction in progress before offset by government grant	**753**	40
– property development in progress	**281**	242
Amounts recoverable	**663**	606
Total staff costs	**22,547**	20,934

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2023	2022
Share-based payments	**119**	118
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**1,178**	1,115
Amounts recognised in respect of defined benefit plans	**386**	398
	1,683	1,631

B Auditors' remuneration charged to the consolidated statement of profit or loss include:

in HK$ million	2023	2022
Audit services	**24**	22
Other audit related services	**6**	6
Tax services	**3**	2
Other non-audit services	**–**	2
	33	32

C Loss on disposal of fixed assets of HK$136 million (2022: HK$148 million) is included in operating expenses.

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contributions	Variable remuneration related to performance	Total
2023					
Members of the Board					
– Rex Auyeung Pak-kuen	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler	0.6	–	–	–	0.6
– Bunny Chan Chung-bun	0.5	–	–	–	0.5
– Walter Chan Kar-lok	0.5	–	–	–	0.5
– Pamela Chan Wong Shui (retired on 24 May 2023)**	0.2	–	–	–	0.2
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Cheng Yan-kee	0.5	–	–	–	0.5
– Hui Siu-wai	0.5	–	–	–	0.5
– Sunny Lee Wai-kwong	0.5	–	–	–	0.5
– Rose Lee Wai-mun	0.5	–	–	–	0.5
– Jimmy Ng Wing-ka	0.5	–	–	–	0.5
– Carlson Tong	0.6	–	–	–	0.6
– Sandy Wong Hang-yee (appointed on 24 May 2023)*	0.3	–	–	–	0.3
– Adrian Wong Koon-man	0.5	–	–	–	0.5
– Anna Wong Wai-kwan (appointed on 24 May 2023)*	0.3	–	–	–	0.3
– Johannes Zhou Yuan (retired on 24 May 2023)**	0.2	–	–	–	0.2
– Christopher Hui Ching-yu	0.5	–	–	–	0.5
– Secretary for Transport and Logistics	0.5	–	–	–	0.5
– 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***	–	11.2	1.3	6.9	19.4
– Jeny Yeung Mei-chun	–	7.1	1.0	2.8	10.9
– Margaret Cheng Wai-ching	–	6.5	0.8	2.6	9.9
– Linda Choy Siu-min	–	4.6	0.6	1.8	7.0
– Carl Michael Devlin~	–	5.0	–~~	2.0	7.0
– Herbert Hui Leung-wah (retired on 1 January 2024)	–	6.8	0.8	2.1	9.7
– Tony Lee Kar-yun	–	5.5	0.7	2.0	8.2
– Gillian Elizabeth Meller	–	5.5	0.7	2.0	8.2
– David Tang Chi-fai	–	7.0	0.9	2.8	10.7
– Sammy Wong Kwan-wai (appointed on 1 January 2023)	–	4.7	0.2	1.6	6.5
	10.4	63.9	7.0	26.6	107.9

* Sandy H Y Wong and Anna W K 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 2023.

** Pamela S Chan Wong and Johannes Y Zhou 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 2023 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.

~ The Company has allocated HK$180,000 to Carl M Devlin through the Relocation Assistance Program to cover the tenancy deposit requirements.

~ ~ The total contributions paid by the Company attributable to the financial year ended 31 December 2023 for Carl M Devlin, who participated in MTR Mandatory Provident Fund Scheme (as described in note 45A(iii)) was HK$18,000.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contributions	Variable remuneration related to performance	Total
2022					
Members of the Board					
– Rex Auyeung Pak-kuen	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Bunny Chan Chung-bun	0.4	–	–	–	0.4
– Walter Chan Kar-lok	0.4	–	–	–	0.4
– Pamela Chan Wong Shui	0.5	–	–	–	0.5
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Cheng Yan-kee	0.5	–	–	–	0.5
– Anthony Chow Wing-kin (retired on 25 May 2022)**	0.2	–	–	–	0.2
– Eddy Fong Ching (retired on 25 May 2022)**	0.2	–	–	–	0.2
– Hui Siu-wai	0.5	–	–	–	0.5
– Sunny Lee Wai-kwong (appointed on 25 May 2022)*	0.2	–	–	–	0.2
– Rose Lee Wai-mun	0.4	–	–	–	0.4
– Jimmy Ng Wing-ka	0.4	–	–	–	0.4
– Benjamin Tang Kwok-bun (retired on 25 May 2022)**	0.2	–	–	–	0.2
– Carlson Tong (appointed on 25 May 2022)*	0.3	–	–	–	0.3
– Adrian Wong Koon-man	0.5	–	–	–	0.5
– Johannes Zhou Yuan	0.5	–	–	–	0.5
– Christopher Hui Ching-yu	0.4	–	–	–	0.4
– Former Secretary for Transport and Housing[Δ]	0.2	–	–	–	0.2
– Secretary for Transport and Logistics[#]	0.2	–	–	–	0.2
– Permanent Secretary for Development (Works)	0.5	–	–	–	0.5
– Commissioner for Transport	0.5	–	–	–	0.5
Members of the Executive Directorate					
– Jacob Kam Chak-pui***	–	10.1	1.3	5.4	16.8
– Adi Lau Tin-shing (retired on 1 January 2023)	–	7.9	–[~]	2.0	9.9
– Roger Francis Bayliss (retired on 1 August 2022)****	–	5.6	–[~~]	1.2	6.8
– Margaret Cheng Wai-ching	–	5.6	0.7	1.9	8.2
– Linda Choy Siu-min	–	4.3	0.6	1.5	6.4
– Carl Michael Devlin (appointed on 1 August 2022)*****	–	2.3	–[~~~]	0.6	2.9
– Herbert Hui Leung-wah	–	5.3	0.7	1.7	7.7
– Tony Lee Kar-yun	–	4.6	0.7	1.5	6.8
– Gillian Elizabeth Meller	–	4.7	0.7	1.7	7.1
– David Tang Chi-fai	–	6.1	0.9	2.2	9.2
– Jeny Yeung Mei-chun	–	6.1	0.9	2.2	9.2
	9.7	62.6	6.5	21.9	100.7

* Sunny W K Lee and Carlson Tong were appointed as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from the respective dates of their appointment to 31 December 2022.

** Anthony W K Chow, Eddy C Fong and Benjamin K B Tang retired as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from 1 January 2022 to the respective dates of their retirement.

*** Jacob C P Kam, being the Chief Executive Officer of the Company, also serves as a Member of the Board.

**** Roger F Bayliss retired as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2022 to the date immediately before his retirement.

***** Carl M Devlin was appointed as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from his date of appointment to 31 December 2022.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2022 for Adi T S Lau, who participated in MTR Retirement Scheme (as described in note 45A(i)) was HK$41,734, pursuant to the requirement of the scheme.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2022 for Roger F Bayliss, who participated in MTR Mandatory Provident Fund Scheme (as described in note 45A(iii)) was HK$4,500.

~~~ The total contributions paid by the Company attributable to the period from his date of appointment to 31 December 2022 for Carl M Devlin, who participated in MTR Mandatory Provident Fund Scheme (as described in note 45A(iii)) was HK$7,500.

Δ The office of the former Secretary for Transport and Housing (held by Frank Chan Fan until 30 June 2022) ceased to be a Member of the Board with effect from 1 July 2022. The amount of his emolument shown in the above table covers the period from 1 January 2022 to the date immediately before his date of cessation.

\# The office of the Secretary for Transport and Logistics (held by Lam Sai-hung) was appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance as a Member of the Board with effect from 1 July 2022. The amount of his emolument shown in the above table covers the period from his appointment to 31 December 2022.
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11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

Michael George Fitzgerald was appointed as a Member of the Executive Directorate with effect from 1 January 2024.

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 2022 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 2023), the office of the Permanent Secretary for Development (Works) (Ricky Lau Chun-kit) and the office of the Commissioner for Transport (Rosanna Law Shuk-pui for the period from 1 January 2022 to 14 August 2023 and Angela Lee Chung-yan for the period from 28 August 2023 to 31 December 2023), 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 2023 and 2022, if any, are as follows:

- Jacob C P Kam was granted 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, 133,700 Restricted Shares on 8 April 2022, and 54,700 Restricted Shares on 11 April 2023, of which a total of 91,917 Restricted Shares were vested in 2023 (2022: 183,149 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$8.3 million (2022: HK$8.8 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- Jeny M C Yeung was granted 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, 46,000 Restricted Shares on 8 April 2022, and 25,100 Restricted Shares on 11 April 2023, of which a total of 31,950 Restricted Shares were vested in 2023 (2022: 22,066 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$2.0 million (2022: HK$2.1 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- Margaret W C Cheng was granted 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, 39,500 Restricted Shares on 8 April 2022, and 23,300 Restricted Shares on 11 April 2023, of which a total of 29,800 Restricted Shares were vested in 2023 (2022: 22,150 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$1.9 million (2022: HK$2.0 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- Linda S M Choy was granted 13,500 Restricted Shares and 47,850 Performance Shares on 8 April 2021, 32,200 Restricted Shares on 8 April 2022, and 17,550 Restricted Shares on 11 April 2023, of which a total of 15,233 Restricted Shares were vested in 2023 (2022: 4,500 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$1.6 million (2022: HK$1.5 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- Carl M Devlin was granted 7,700 Restricted Shares and 7,300 Performance Shares on 8 April 2022, and 15,700 Restricted Shares on 11 April 2023, of which a total of 2,566 Restricted Shares were vested in 2023 (2022: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$0.5 million (for a period from his date of appointment as Member of the Executive Directorate to 31 December 2022: HK$0.2 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- Herbert L W Hui was granted 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, 37,850 Restricted Shares on 8 April 2022, and 17,100 Restricted Shares on 11 April 2023, of which a total of 75,034 Restricted Shares were vested in 2023 (2022: 19,483 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$2.6 million (2022: HK$1.9 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- Tony K Y Lee was granted 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, 34,050 Restricted Shares on 8 April 2022, and 14,850 Restricted Shares on 11 April 2023, of which a total of 21,034 Restricted Shares were vested in 2023 (2022: 12,450 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$1.6 million (2022: HK$1.7 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- Gillian E Meller was granted 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, 34,600 Restricted Shares on 8 April 2022, and 19,550 Restricted Shares on 11 April 2023, of which a total of 25,283 Restricted Shares were vested in 2023 (2022: 18,218 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$1.7 million (2022: HK$1.8 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- David C F Tang was granted 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, 46,000 Restricted Shares on 8 April 2022, and 25,100 Restricted Shares on 11 April 2023, of which a total of 31,516 Restricted Shares were vested in 2023 (2022: 21,917 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2023 was HK$2.0 million (2022: HK$2.1 million). No award shares were lapsed/forfeited in 2023 (2022: nil);

- Sammy K W Wong was granted 7,650 Restricted Shares on 8 April 2020, 7,350 Restricted Shares and 10,100 Performance Shares on 8 April 2021, 8,050 Restricted Shares on 8 April 2022, and 16,400 Restricted Shares on 11 April 2023, of which a total of 7,683 Restricted Shares were vested in 2023, and the respective fair value of the share-based payments recognised for year ended 31 December 2023 was HK$0.6 million. No award shares were lapsed/forfeited in 2023;

- Adi T S Lau was granted 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, and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$4.2 million. No award shares were lapsed/forfeited in 2022; and

- 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, and the respective fair value of the share-based payments recognised for the year ended 31 December 2022 was HK$3.6 million. No award shares were lapsed/forfeited in 2022.

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 years ended 31 December 2023 and 2022, the five individuals with the highest emoluments were Members of the Executive Directorate of the Company, whose emoluments are shown above.

(iv) The aggregate emoluments and share-based payments of Members of the Board and the Executive Directorate for the year was HK$130.7 million (2022: HK$130.6 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, the non-executive Chairman of the Company since 1 July 2019, was re-appointed by The Financial Secretary Incorporated ("FSI") on 7 March 2024 for an additional one-and-a-half-year term, extending to 31 December 2025.

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 2023 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 44, 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 every three years and vest subject to the performance of the Company over a pre-determined performance period, assessed with reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

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 2U(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, Income and Interest in Unsold Properties

Hong Kong property development profit from share of surplus, income and interest in unsold properties comprises:

in HK$ million	2023	2022
Share of surplus, income and interest in unsold properties from property development	**2,335**	11,473
Agency fee and other income from West Rail property development (note 24C)	**8**	128
Overheads and miscellaneous studies	**(14)**	(12)
Hong Kong property development profit (pre-tax)	**2,329**	11,589
Hong Kong property development profit (post-tax)	**2,035**	10,413

For the year ended 31 December 2023, profit attributable to shareholders of the Company arising from Hong Kong property development of HK$2,035 million (2022: HK$10,413 million) represents Hong Kong property development profit of HK$2,329 million (2022: HK$11,589 million) and related income tax expenses of HK$294 million (2022: HK$1,176 million).

13 Gain/(Loss) from Fair Value Measurement of Investment Properties

Gain/(loss) from fair value measurement of investment properties comprises:

in HK$ million	2023	2022
Gain/(loss) from fair value remeasurement on investment properties	**26**	(3,076)
Gain from fair value measurement of investment properties on initial recognition from property development	**1,360**	2,266
	1,386	(810)

During the year ended 31 December 2023, investment property with a carrying value of HK$5.2 billion was initially recognised upon the receipt of a shopping mall from a property development project.

Taking into account the outstanding risks and obligations of HK$3.6 billion retained by the Group and HK$0.2 billion cost incurred/to be incurred by the Group in connection with this property development, in accordance with the Group's accounting policies (set out in note 2K), HK$1.4 billion was recognised as gain from fair value measurement of investment properties on initial recognition from property development in profit or loss for the year ended 31 December 2023. Deferred income of HK$3.6 billion retained was recognised in the Group's consolidated statement of financial position and included in "Creditors, other payables and provisions" (note 36).

The outstanding risks and obligations retained by the Group will be reassessed at the end of each reporting period. Any reduction in the amount of outstanding risks and obligations will be accounted for as a decrease in deferred income and a corresponding "Gain from fair value measurement of investment properties on initial recognition from property development" in profit or loss of that reporting period.

14 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2023	2022
Depreciation charge relating to:		
– Owned property, plant and equipment	**3,727**	3,839
– Right-of-use assets	**350**	342
	4,077	4,181
Amortisation charge:		
– Amortisation charge relating to service concession assets and other intangible assets	**2,028**	1,853
– Utilisation of government subsidy for SZL4 operation	**–**	(265)
	2,028	1,588
	6,105	5,769

15 Interest and Finance Charges

in HK$ million	**2023**		2022	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**1,816**		1,033	
– Obligations under service concession	**681**		688	
– Lease liabilities	**40**		44	
– Others	**28**		26	
Finance charges	**42**		43	
Exchange loss/(gain)	**82**		(253)	
		2,689		1,581
Utilisation of government subsidy for SZL4 operation		**–**		(35)
Derivative financial instruments:				
– Fair value hedges	**9**		17	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(57)**		(26)	
– transferred from hedging reserve to offset exchange (loss)/gain	**(75)**		289	
– transferred from hedging reserve upon discontinuation of hedge accounting	**–**		(79)	
– Derivatives not qualified for hedge accounting	**17**		(13)	
		(106)		188
Interest expenses capitalised		**(667)**		(356)
		1,916		1,378
Interest income in respect of:				
– Deposits with banks	**(669)**		(316)	
– Others	**(108)**		(80)	
		(777)		(396)
		1,139		982

During the year ended 31 December 2023, 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 3.1% to 4.0% per annum (2022: 2.1% to 3.3% 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, which was offset by the subsidy received from the Shenzhen Municipal Government of HK$35 million.

During the year ended 31 December 2023, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged under fair value hedge was HK$90 million (2022: gain of HK$497 million) while the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$81 million (2022: loss of HK$514 million), thus resulting in a net loss of HK$9 million (2022: HK$17 million).

16 Income Tax in the Consolidated Statement of Profit or Loss

A Income tax in the consolidated statement of profit or loss represents:

in HK$ million	**2023**	2022
Current tax		
– Hong Kong Profits Tax	**610**	989
– Tax outside Hong Kong	**377**	413
	987	1,402
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**68**	(44)
– depreciation allowances in excess of related depreciation	**638**	383
– revaluation of properties	**(34)**	3
– provisions and others	**(102)**	(152)
– right-of-use assets	**4**	(11)
– lease liabilities	**14**	27
	588	206
	1,575	1,608

(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 2023 is calculated at 16.5% (2022: 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 2023 and 2022.

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 2023, Land Appreciation Tax (before tax effect on deduction of Corporate Income Tax) of HK$nil (2022: HK$51 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% (2022: 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 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.

16 Income Tax in the Consolidated Statement of Profit or Loss *(continued)*

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

	2023		2022	
	HK$ million	%	HK$ million	%
Profit before taxation	**9,663**		11,749	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,561**	**16.2**	1,925	16.4
Land Appreciation Tax (net of tax effect on deduction of Corporate Income Tax)	**–**	**–**	38	0.3
Tax effect of non-deductible expenses	**305**	**3.1**	869	7.4
Tax effect of non-taxable revenue	**(555)**	**(5.7)**	(1,341)	(11.4)
Tax effect of unused tax losses not recognised	**276**	**2.8**	118	1.0
Utilisation of tax losses previously not recognised	**(12)**	**(0.1)**	(1)	–
Actual tax expenses	**1,575**	**16.3**	1,608	13.7

C Pillar Two Income Taxes

The Group operates in Australia, Sweden and the United Kingdom, where these jurisdictions have enacted or substantially enacted new tax laws to implement the Pillar Two model rules published by the OECD. The new tax laws will take effect from 1 January 2024 in these jurisdictions. When these laws take effect, the Group does not expect to be subject to any top-up tax in these jurisdictions in the year 2024 in relation to its operations in these jurisdictions, since their respective local statutory tax rates are higher than 15%. As the new tax laws are not yet effective, the Group does not recognise any current tax relating to the Pillar Two model rules for the year ended 31 December 2023.

The Group has applied the temporary mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes and would account for the tax as current tax when incurred (see note 2A(iii)(a)).

If the new tax laws have been applied in Australia, Sweden and the United Kingdom for the year 2023, the Group would not have been subject to any top-up tax for the year ended 31 December 2023. This is because the average effective tax rates for the Group's operations in these jurisdictions exceeded 15%, or the operations were in tax loss positions.

17 Dividends

Ordinary dividends to shareholders of the Company are as follows:

in HK$ million	**2023**	2022
Ordinary dividends attributable to the year		
– Interim ordinary dividend declared and paid of HK$0.42 (2022: HK$0.42) per share	**2,610**	2,604
– Final ordinary dividend proposed after the end of the reporting period of HK$0.89 (2022: HK$0.89) per share	**5,533**	5,520
	8,143	8,124
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK$0.89 (2022: HK$1.02 per share attributable to year 2021) per share approved and paid during the year	**5,520**	6,317

The 2023 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 2023 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 31 May 2024 (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 attributable to shareholders of the Company for the year ended 31 December 2023 of HK$7,784 million (2022: HK$9,827 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2023	2022
Issued ordinary shares at 1 January	**6,202,060,784**	6,193,462,514
Effect of scrip dividend issued	**6,203,749**	3,237,016
Less: Shares held for Executive Share Incentive Scheme	**(6,164,436)**	(5,797,375)
Weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year	**6,202,100,097**	6,190,902,155

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2023 of HK$7,784 million (2022: HK$9,827 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, which is calculated as follows:

	2023	2022
Weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year	**6,202,100,097**	6,190,902,155
Effect of shares awarded under Executive Share Incentive Scheme	**6,214,868**	5,895,643
Weighted average number of ordinary shares (diluted) during the year	**6,208,314,965**	6,196,797,798

C Both basic and diluted earnings per share would have been HK$1.03 (2022: HK$1.72), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$6,364 million (2022: HK$10,637 million).

19 Other Comprehensive Income/(Loss)

A Tax effects relating to each component of other comprehensive income/(loss) of the Group are shown below:

	2023			2022		
in HK$ million	Before-tax amount	Tax (expenses)/ credit	Net-of-tax amount	Before-tax amount	Tax (expenses)/ credit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of subsidiaries, associates and joint ventures outside Hong Kong	**(378)**	**–**	**(378)**	(1,713)	–	(1,713)
– Non-controlling interests	**26**	**–**	**26**	(11)	–	(11)
	(352)	**–**	**(352)**	(1,724)	–	(1,724)
Surplus on revaluation of self-occupied buildings	**29**	**(5)**	**24**	52	(9)	43
Remeasurement of net asset/liability of defined benefit schemes	**(247)**	**53**	**(194)**	(155)	38	(117)
Cash flow hedges: net movement in hedging reserve (note 19B)	**(728)**	**120**	**(608)**	99	(17)	82
Other comprehensive (loss)/income	**(1,298)**	**168**	**(1,130)**	(1,728)	12	(1,716)

19 Other Comprehensive Income/(Loss) *(continued)*

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

in HK$ million	2023	2022
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(621)**	(111)
Amounts transferred to profit or loss during the year:		
– Interest and finance charges (note 15)	**(132)**	184
– Other expenses	**25**	26
	(728)	99
Tax effect resulting from:		
– Effective portion of changes in fair value of hedging instruments recognised during the year	**102**	18
– Amounts transferred to profit or loss during the year	**18**	(35)
	(608)	82

20 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Movements of the Group's investment properties, all of which being held in Hong Kong and Mainland China and carried at fair value, are as follows:

in HK$ million	2023	2022
At 1 January	**91,671**	84,801
Additions*	**6,517**	9,977
Fair value remeasurement on investment properties (note 13)	**26**	(3,076)
Exchange loss	**(9)**	(31)
At 31 December	**98,205**	91,671

* Additions for the year include the fair value measurement of investment properties on initial recognition from property development of HK$5,211 million (2022: HK$9,186 million) (note 13) and the amount transferred from deferred expenditure of HK$92 million (2022: HK$398 million).

All investment properties of the Group were remeasured at 31 December 2023 and 2022. Details of the fair value measurement are disclosed in note 43. Investment properties in Hong Kong and Mainland China are remeasured semi-annually by independent firms of surveyor, 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 future periods.

Included in the Group's investment properties as at 31 December 2023 was HK$316 million (2022: HK$459 million) relating to properties in Mainland China.

20 Investment Properties and Other Property, Plant and Equipment
(continued)

B Other Property, Plant and Equipment

in HK$ million	Leasehold land	Self-occupied buildings	Civil works	Plant and equipment	Assets under construction	Total
2023						
Cost or Valuation						
At 1 January 2023	**1,765**	**4,089**	**62,382**	**93,565**	**12,059**	**173,860**
Additions	**–**	**97**	**–**	**254**	**5,549**	**5,900**
Disposals/write-offs	**–**	**(84)**	**(1)**	**(1,579)**	**(12)**	**(1,676)**
Loss on revaluation	**–**	**(123)**	**–**	**–**	**–**	**(123)**
Capitalisation adjustments*	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Transfer to Services Concession Assets (note 21)	**–**	**–**	**1**	**(5)**	**(10)**	**(14)**
Reclassification within other property, plant and equipment	**–**	**–**	**107**	**(100)**	**(7)**	**–**
Reclassified as disposal group held for sale (note 49)	**–**	**(51)**	**–**	**(558)**	**(1)**	**(610)**
Other assets commissioned	**–**	**–**	**13**	**2,664**	**(2,677)**	**–**
Exchange differences	**–**	**10**	**–**	**58**	**–**	**68**
At 31 December 2023	**1,765**	**3,938**	**62,502**	**94,296**	**14,901**	**177,402**
At Cost	**1,765**	**415**	**62,502**	**94,296**	**14,901**	**173,879**
At 31 December 2023 Valuation	**–**	**3,523**	**–**	**–**	**–**	**3,523**
Accumulated depreciation						
At 1 January 2023	**476**	**269**	**10,956**	**59,862**	**–**	**71,563**
Charge for the year	**34**	**236**	**603**	**3,204**	**–**	**4,077**
Written back on disposals	**–**	**(64)**	**(1)**	**(1,540)**	**–**	**(1,605)**
Written back on revaluation	**–**	**(152)**	**–**	**–**	**–**	**(152)**
Reclassified as disposal group held for sale (note 49)	**–**	**(39)**	**–**	**(215)**	**–**	**(254)**
Exchange differences	**–**	**11**	**–**	**41**	**–**	**52**
At 31 December 2023	**510**	**261**	**11,558**	**61,352**	**–**	**73,681**
Net book value at 31 December 2023	**1,255**	**3,677**	**50,944**	**32,944**	**14,901**	**103,721**
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
Accumulated 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.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets

At 31 December 2023 and 2022, the analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

in HK$ million	Note	**2023**	2022
Ownership interests in leasehold land held for own use, with remaining lease term of:	(i)		
– less than 50 years		**1,255**	1,289
Ownership interests in self-occupied buildings held for own use, with remaining lease term of:	(i)		
– less than 50 years		**3,523**	3,646
Other self-occupied buildings leased for own use, with remaining lease term of:	(ii)		
– less than 10 years		**154**	174
Plant and equipment leased, with remaining lease term of:	(iii)		
– between 10 and 50 years		**284**	318
– less than 10 years		**136**	379
		5,352	5,806
Ownership interests in leasehold investment properties, with remaining lease term of:			
– 50 years or more		**14**	14
– less than 50 years		**98,069**	91,450
		98,083	91,464
Other leasehold investment property, with remaining lease term of:			
– less than 10 years		**122**	207
		98,205	91,671
		103,557	97,477

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

in HK$ million	**2023**	2022
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	**152**	149
Other self-occupied buildings leased for own use	**84**	82
Plant and equipment leased	**80**	77
	350	342
Interest on lease liabilities	**40**	44
Expense relating to short-term leases	**14**	12
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**13**	34

During the year, additions to right-of-use assets were HK$6,682 million (2022: HK$10,409 million). This amount primarily related to additions of investment properties, including fair value measurement of investment properties on initial recognition from property development (note 13).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 42C and 35D, respectively.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets *(continued)*

(i) Ownership Interests in Leasehold Land and Buildings Held for Own Use

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 47A, 47B and 47C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated statement of profit or loss.

All self-occupied buildings of the Group in Hong Kong are carried at fair value. The details of the fair value measurement are disclosed in note 43. The revaluation surplus of HK$29 million (2022: HK$52 million) and the related deferred tax expenses of HK$5 million (2022: HK$9 million) has been recognised in other comprehensive income/loss and accumulated in the fixed assets revaluation reserve (note 41C). The carrying amount of the self-occupied buildings at 31 December 2023 would have been HK$587 million (2022: HK$613 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 five 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$98,205 million (2022: HK$91,671 million). The costs of station kiosks of the Group held for use in operating leases were HK$961 million (2022: HK$905 million) and the related accumulated depreciation charges were HK$606 million (2022: HK$576 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

in HK$ million	**2023**	2022
Within 1 year	**6,869**	6,355
After 1 year but within 2 years	**5,365**	4,707
After 2 years but within 3 years	**2,708**	3,274
After 3 years but within 4 years	**1,153**	1,448
After 4 years but within 5 years	**491**	798
After 5 years	**340**	472
	16,926	17,054

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated statement of profit or loss over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

21 Service Concession Assets

Movements and analysis of the Group's service concession assets are as follows:

	KCRC Rail Merger								
in HK$ million	Initial concession property	Additional concession property	Additional concession property (High Speed Rail)	Additional concession property (Shatin to Central Link)	Shenzhen Metro Line 4	Shenzhen Metro Line 13	MTR Nordic	London Elizabeth Line	Total
2023									
Cost									
At 1 January 2023	**15,226**	**24,728**	**345**	**249**	**8,403**	**1,816**	**69**	**54**	**50,890**
Net additions during the year	**–**	**2,535**	**139**	**99**	**78**	**429**	**–**	**–**	**3,280**
Disposals	**–**	**(199)**	**–**	**(1)**	**(106)**	**–**	**–**	**–**	**(306)**
Transfer from other property, plant and equipment (note 20)	**–**	**6**	**–**	**8**	**–**	**–**	**–**	**–**	**14**
Exchange differences	**–**	**–**	**–**	**–**	**(151)**	**48**	**–**	**–**	**(103)**
At 31 December 2023	**15,226**	**27,070**	**484**	**355**	**8,224**	**2,293**	**69**	**54**	**53,775**
Accumulated amortisation and impairment loss									
At 1 January 2023	**4,594**	**5,890**	**51**	**12**	**4,706**	**–**	**62**	**52**	**15,367**
Amortisation charge for the year	**304**	**1,413**	**37**	**15**	**255**	**–**	**1**	**2**	**2,027**
Written-off on disposals	**–**	**(161)**	**–**	**–**	**(63)**	**–**	**–**	**–**	**(224)**
Exchange differences	**–**	**–**	**–**	**–**	**(105)**	**–**	**–**	**–**	**(105)**
At 31 December 2023	**4,898**	**7,142**	**88**	**27**	**4,793**	**–**	**63**	**54**	**17,065**
Net book value at 31 December 2023	**10,328**	**19,928**	**396**	**328**	**3,431**	**2,293**	**6**	**–**	**36,710**

21 Service Concession Assets *(continued)*

in HK$ million	KCRC Rail Merger: Initial concession property	KCRC Rail Merger: Additional concession property	Additional concession property (High Speed Rail)	Additional concession property (Shatin to Central Link)	Shenzhen Metro Line 4	Shenzhen Metro Line 13	MTR Nordic	London Elizabeth Line	Total
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

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 2023, 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.

At 30 June 2022, as it was 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, 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 2023 and 31 December 2022, no further impairment loss was recognised as at 31 December 2023 and 31 December 2022.

C On 30 October 2020, 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 2023 of HK$429 million (2022: HK$956 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$5.4 billion). As at 31 December 2023, the Group has incurred cumulative expenditure of RMB2.1 billion (HK$2.3 billion) and has authorised outstanding commitments totalling RMB2.8 billion (HK$3.1 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 formal claim has been received from the HKSAR Government. The HKSAR Government has recently informed the Company of a number of areas of interest to it arising out of the Company's performance under the HSR Entrustment Agreements ("**Areas of Interest**") for which the HKSAR Government is seeking further information and explanations from the Company. The Company is in the process of reviewing such Areas of Interest and will, following such review, enter into a dialogue with the HKSAR Government with a view to addressing such Government Areas of Interest.

(b) HSR Agreement

In 2015, as a result of the HSR programme being extended to the third quarter of 2018 and the Company and the HKSAR Government reaching agreement for revising the estimate project cost to HK$84.42 billion (the "**Revised Cost Estimate**"), the HKSAR Government and the Company entered into an agreement (the "**HSR Agreement**") relating to the further funding and completion of the HSR (and which made certain changes to the HSR Entrustment Agreement) which was subsequently approved by the Company's independent shareholders at an extraordinary general meeting, and the Legislative Council approved the HKSAR Government's additional funding obligations, during 2016. Pursuant to the HSR Agreement:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion, which includes an increase in the project cost by the amount of HK$19.42 billion being the "**Current Cost Overrun**";

(ii) The Company will, if the project cost exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "**Further Cost Overrun**") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);

(iii) The Company would pay a special dividend in cash of HK$4.40 in aggregate per share in two tranches in 2016 and 2017;

(iv) The HSR Project Management Fee increases from HK$4.59 billion to HK$6.34 billion. Consequently, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion; and

(v) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the Entrustment Agreements (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(c) As at 31 December 2023, 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 formal claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 31 December 2023 and up to the date of this annual report and the eventual outcome of any dialogue between the Company and the HKSAR Government on the Areas of Interest remains highly uncertain at the current stage; (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 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 2023, HK$84 million (2022: HK$153 million) of such costs were incurred by the Company, which are payable by the HKSAR Government. As at 31 December 2023, the amount of such costs which remained outstanding from the HKSAR Government was HK$144 million (31 December 2022: HK$209 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.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(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 (which the Company has continued and will continue to comply with) 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.

After taking into account the matters described above, and in particular, the Company meeting, on an interim and without prejudice basis (on the basis outlined above), 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 2023, the provision utilised amounted to HK$172 million (2022: HK$314 million) and no provision was written back (2022: HK$nil). As at 31 December 2023, the provision of HK$307 million (31 December 2022: HK$479 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 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**").

*(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.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(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 2023, the provision utilised amounted to HK$65 million (2022: HK$117 million) and no provision was written back (2022: HK$nil). As at 31 December 2023, the provision of HK$762 million (31 December 2022: HK$827 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 2023 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

Movements of railway construction in progress of the Group are as follows:

in HK$ million	Balance at 1 January	Additions^	Balance at 31 December
2023			
Oyster Bay Station			
Construction costs	**7**	**34**	**41**
Consultancy fees	**46**	**83**	**129**
Staff costs and other expenses	**44**	**45**	**89**
Finance costs	**1**	**8**	**9**
Utilisation of government grant (note 47H)	**(98)**	**(170)**	**(268)**
	–	**–**	**–**
Tung Chung Line Extension			
Construction costs	**–**	**561**	**561**
Consultancy fees	**–**	**804**	**804**
Staff costs and other expenses	**–**	**507**	**507**
Finance costs	**–**	**39**	**39**
	–	**1,911**	**1,911**
Tuen Mun South Extension			
Construction costs	**–**	**148**	**148**
Consultancy fees	**–**	**249**	**249**
Staff costs and other expenses	**–**	**422**	**422**
Finance costs	**–**	**7**	**7**
	–	**826**	**826**
Kwu Tung Station*			
Construction costs	**–**	**331**	**331**
Consultancy fees	**–**	**590**	**590**
Staff costs and other expenses	**–**	**589**	**589**
Finance costs	**–**	**9**	**9**
	–	**1,519**	**1,519**
Total	**–**	**4,256**	**4,256**
2022			
Oyster Bay Station			
Construction costs	–	7	7
Consultancy fees	–	46	46
Staff costs and other expenses	–	44	44
Finance costs	–	1	1
Utilisation of government grant (note 47H)	–	(98)	(98)
Total	–	–	–

^ The additions represent capital expenditure incurred and transferred from deferred expenditure.

* According to the project agreement of Kwu Tung Station signed on 5 September 2023 with the HKSAR Government, the Kwu Tung Station project works include, inter alia, (i) the construction of the Kwu Tung Station, and (ii) the detailed planning and design, and the advance works of the Northern Link (main line).

The Oyster Bay Station project is targeted to complete in 2030. Total capital cost for the Oyster Bay Station project based on the defined scope of works and programme is estimated at HK$6.7 billion (excluding finance costs). As at 31 December 2023, the Company has incurred cumulative expenditure of HK$259 million (2022: HK$97 million) (excluding finance costs), which was wholly offset by the government grant, and has authorised outstanding commitments totalling HK$6.4 billion in relation to the Oyster Bay Station project which are included in "Capital commitments" (note 48A).

23 Railway Construction in Progress *(continued)*

The Tung Chung Line Extension project is targeted to complete in 2029. Total capital cost for Tung Chung Line Extension project based on the defined scope of works and programme is estimated at HK$24.2 billion (excluding finance costs). As at 31 December 2023, the Company has incurred cumulative expenditure of HK$1,872 million (excluding finance costs) and has authorised outstanding commitments totalling HK$22.3 billion in relation to the Tung Chung Line Extension project which are included in "Capital commitments" (note 48A).

The Tuen Mun South Extension project is targeted to complete in 2030. Total capital cost for Tuen Mun South Extension project based on the defined scope of works and programme is estimated at HK$18.2 billion (excluding finance costs). As at 31 December 2023, the Company has incurred cumulative expenditure of HK$819 million (excluding finance costs) and has authorised outstanding commitments totalling HK$17.4 billion in relation to the Tuen Mun South Extension project which are included in "Capital commitments" (note 48A).

The Kwu Tung Station and advance works of the Northern Link (main line), and detailed planning and design of the Northern Link (main line) are targeted to complete in 2027 and 2034 respectively. Total capital cost for Kwu Tung Station project based on the defined scope of works and programme (including the detailed planning and design, and the advance works of the Northern Link (main line)) is estimated at HK$10.8 billion (excluding finance costs). As at 31 December 2023, the Company has incurred cumulative expenditure of HK$1,510 million (excluding finance costs) and has authorised outstanding commitments totalling HK$9.3 billion in relation to the Kwu Tung Station 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 2023, 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

Movements of property development in progress of the Group are as follows:

in HK$ million	Balance at 1 January	Net additions*	Transfer out to profit or loss	Balance at 31 December
2023				
Hong Kong Property Development Projects	**41,269**	**459**	**–**	**41,728**
2022				
Hong Kong Property Development Projects	11,215	41,088	(11,034)	41,269

* The net additions represent expenditure incurred for Hong Kong property development projects, including the amount of land premium, capital expenditure and development costs transferred from deferred expenditure, and be offset by payments or distributions of the assets received from developers and utilisation of government grant (if any).

The remaining 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, Kwun Tong Line and East Rail Line/Light Rail 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 2023, the balance of the stakeholding funds was HK$18,397 million (2022: HK$23,715 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 2023, HK$8 million (2022: HK$128 million) of agency fee and other income in respect of West Rail property development was recognised (note 12). During the year ended 31 December 2023, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$43 million (2022: HK$55 million).

25 Deferred Expenditure

As at 31 December 2023, deferred expenditure included costs of HK$0.4 billion (2022: HK$2.3 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 2023:

		Proportion of ownership interest				
Name of company	Issued share capital/ contributed registered capital	Group's effective interest	Held by the Company	Held by subsidiary(ies)	Place of incorporation/ establishment and operation	Principal activities
LOUDER HK Company Limited	HK$100	100%	–	100%	Hong Kong	Retail
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Lab Company Limited	HK$100	100%	100%	–	Hong Kong	Holding of investments
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operating the Tung Chung to Ngong Ping cable car system and theme village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment and management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900	60% on ordinary shares;	–	100% on ordinary shares;	Australia	Railway operations and maintenance
	AUD100	30% on Class A shares	–	100% on Class A shares		
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Railway operations and maintenance
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Design, delivery and integration of railway related systems
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macao	Railway consultancy services
MTR Railway Operations (Macau) Company Limited	MOP25,000	100%	–	100%	Macao	Railway operations and management
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Mälartåg AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance

26 Investments in Subsidiaries *(continued)*

Name of company	Issued share capital/ contributed registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary(ies)	Place of incorporation/ establishment and operation	Principal activities
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Holding of investments
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# @	RMB946,000,000	83%	–	83%	The People's Republic of China	Railway construction, operations and management
MTR Property Development (Shenzhen) Company Limited# @	HK$1,304,969,189	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Commercial Centre Management (Tianjin) Company Limited^ @	RMB1,352,000,000	100%	–	100%	The People's Republic of China	Property investment, leasing and management
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 2023, all of which are unlisted corporate entities whose quoted market price is not available:

	Proportion of ownership interest				
Name of company	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Associates					
Octopus Holdings Limited ("OHL")#	64.02%	64.02%	–	Hong Kong	Holding company of a group of companies which engage in the operation of a contactless smartcard common payment system in Hong Kong and consultancy services
Beijing MTR Corporation Limited~ @	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited α @	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
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 construction, operations and maintenance through a unit trust
NRT CSW Pty Ltd*	27.55%	–	27.55%	Australia	Financing, railway construction, operations and maintenance through a unit trust
Joint Venture					
Hangzhou MTR Line 5 Corporation Limited ~ @	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

\# In January 2022, the Company acquired a total of 6.62% additional shares of OHL from Citybus Limited and New World First Bus Services Limited (subsidiaries of Bravo Transport Services Limited). After the acquisition, the Company's shareholding in OHL increased from 57.40% to 64.02%. The Group regards OHL and its subsidiaries (the "OHL Group") as associates as the Company cannot control the OHL Group's activities unilaterally taking into account the Company's voting rights at the board meetings of OHL.

* Companies not audited by KPMG

~ Sino-foreign co-operative joint venture registered under PRC Law

α Limited liability company (wholly owned by a legal person) under PRC Law

@ English translation for identification purpose only

All the associates and joint ventures are accounted for using the equity method in the consolidated financial statements and considered to be not individually material.

27 Interests in Associates and Joint Ventures *(continued)*

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

in HK$ million	2023	2022
Income	**8,215**	7,713
Expenses and others	**(6,423)**	(6,077)
Profit before taxation	**1,792**	1,636
Income tax	**(533)**	(541)
Net profit	**1,259**	1,095
Other comprehensive loss	**(157)**	(887)
Total comprehensive income	**1,102**	208
Assets	**33,533**	34,690
Liabilities	**(21,069)**	(22,659)
Net assets	**12,464**	12,031
Group's share of net assets of the associates and joint ventures	**12,464**	12,031
Goodwill	**321**	307
Carrying amount in the consolidated statement of financial position	**12,785**	12,338

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 many of the past several years due to slow growth in patronage, especially during the pandemic. Because there is no patronage protection mechanism under this concession agreement, the long-term financial viability of this line will be impacted if patronage remains at a lower level over a further period of time, especially when the lower average fare resulting from the expanded network is taken into consideration.

28 Investments in Securities

Investments in securities are measured at fair value and comprise of:

in HK$ million	2023	2022
Unlisted equity securities held by subsidiaries	**564**	669
Listed debt securities held by an overseas insurance underwriting subsidiary	**298**	290
	862	959

As at 31 December 2023, all debt securities were expected to mature within one year except for HK$267 million (2022: HK$235 million) which were expected to mature after one year. During the year ended 31 December 2023, net fair value gain on investments in securities of HK$54 million (2022: HK$20 million) was recognised.

29 Properties Held for Sale

in HK$ million	2023	2022
Properties held for sale		
– at cost	**860**	1,307
– at net realisable value	**1,079**	581
	1,939	1,888
Representing:		
Hong Kong property development	**1,927**	1,876
Mainland China property development	**12**	12
	1,939	1,888

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 2023 and 2022 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$83 million (2022: HK$43 million) made in order to state these properties at the lower of their cost and estimated net realisable value. The remaining lease terms of leasehold land in Hong Kong included under properties held for sale are between 10 and 50 years.

30 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2023							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	2,164	15					
– inflow			223	477	898	–	1,598
– outflow			(219)	(471)	(886)	–	(1,576)
– not qualified for hedge accounting:	445	8					
– inflow			358	87	8	–	453
– outflow			(353)	(84)	(8)	–	(445)
Cross currency swaps							
– fair value hedges:	3,978	56					
– inflow			152	462	3,929	–	4,543
– outflow			(185)	(420)	(3,839)	–	(4,444)
– cash flow hedges:	391	–					
– inflow			–	–	–	802	802
– outflow			–	–	–	(811)	(811)
Net settled:							
Interest rate swaps							
– fair value hedges	14,774	116	(11)	201	49	–	239
– cash flow hedges	600	5	8	1	(4)	1	6
– not qualified for hedge accounting	1,300	40	11	7	18	10	46
	23,652	240	(16)	260	165	2	411
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	209	(13)					
– inflow			528	195	56	–	779
– outflow			(541)	(198)	(58)	–	(797)
– not qualified for hedge accounting:	378	(17)					
– inflow			250	8	102	–	360
– outflow			(258)	(9)	(111)	–	(378)
Cross currency swaps							
– fair value hedges:	6,528	(346)					
– inflow			2,294	2,823	43	1,474	6,634
– outflow			(2,463)	(2,856)	(73)	(1,527)	(6,919)
– cash flow hedges:	22,920	(1,030)					
– inflow			446	444	10,428	16,682	28,000
– outflow			(453)	(451)	(10,975)	(17,117)	(28,996)
Net settled:							
Interest rate swaps							
– fair value hedges	5,251	(88)	(34)	18	(24)	(14)	(54)
– cash flow hedges	9,832	(182)	64	(46)	(134)	(89)	(205)
– not qualified for hedge accounting	300	(34)	(9)	(6)	(14)	(9)	(38)
	45,418	(1,710)	(176)	(78)	(760)	(600)	(1,614)
Total	69,070						

30 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2022							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	178	5					
– inflow			98	20	65	–	183
– outflow			(95)	(19)	(64)	–	(178)
– not qualified for hedge accounting:	152	5					
– inflow			157	–	–	–	157
– outflow			(152)	–	–	–	(152)
Cross currency swaps							
– fair value hedges:	1,213	25					
– inflow			257	11	317	706	1,291
– outflow			(249)	(13)	(295)	(698)	(1,255)
– cash flow hedges:	12,915	45					
– inflow			265	265	6,309	10,381	17,220
– outflow			(249)	(250)	(6,234)	(10,289)	(17,022)
Net settled:							
Interest rate swaps							
– fair value hedges	5,392	39	(37)	49	37	–	49
– cash flow hedges	4,442	26	30	17	(21)	–	26
– not qualified for hedge accounting	2,534	71	26	12	24	20	82
	26,826	216	51	92	138	120	401
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,475	(6)					
– inflow			1,475	–	–	–	1,475
– outflow			(1,481)	–	–	–	(1,481)
– cash flow hedges:	383	(30)					
– inflow			223	86	44	–	353
– outflow			(237)	(96)	(50)	–	(383)
– not qualified for hedge accounting:	223	(18)					
– inflow			137	10	58	–	205
– outflow			(146)	(11)	(66)	–	(223)
Cross currency swaps							
– fair value hedges:	4,565	(261)					
– inflow			749	2,324	941	826	4,840
– outflow			(841)	(2,363)	(996)	(867)	(5,067)
– cash flow hedges:	9,649	(600)					
– inflow			464	183	1,589	8,507	10,743
– outflow			(559)	(203)	(1,815)	(8,794)	(11,371)
Net settled:							
Interest rate swaps							
– fair value hedges	2,401	(142)	(48)	(35)	(36)	(33)	(152)
– not qualified for hedge accounting	300	(47)	(10)	(9)	(20)	(17)	(56)
	18,996	(1,104)	(274)	(114)	(351)	(378)	(1,117)
Total	45,822						

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30 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2023 and 2022 were used to discount the cash flows of financial instruments. Interest rates used ranged from 3.09% to 5.27% (2022: 3.63% to 4.99%) for Hong Kong dollars, 3.76% to 5.59% (2022: 3.81% to 5.16%) for United States dollars, 3.77% to 4.39% (2022: 3.01% to 4.62%) for Australian dollars, 0.07% to 0.52% (2022: 0.07% to 1.14%) for Japanese yen and 3.10% to 3.65% (2022: 2.54% to 3.50%) for Renminbi.

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 2023, the Group had undrawn committed banking facility of HK$18,329 million (2022: HK$14,512 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:

	2023				2022			
in HK$ million	Capital market instruments	Bank loans	Others	Total	Capital market instruments	Bank loans	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**25,633**	**1,599**	**–**	**27,232**	28,382	1,153	–	29,535
Amounts repayable within a period of between 2 and 5 years	**14,670**	**790**	**–**	**15,460**	11,905	804	–	12,709
Amounts repayable within a period of between 1 and 2 years	**15,918**	**481**	**–**	**16,399**	8,254	202	619	9,075
Amounts repayable within 1 year	**8,791**	**1,618**	**620**	**11,029**	3,843	3,302	–	7,145
	65,012	**4,488**	**620**	**70,120**	52,384	5,461	619	58,464

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

30 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Group's exposure to liquidity risks in respect of derivative financial liabilities (note 30A), lease liabilities (note 35D), creditors, other payables and provisions (note 36), amounts due to related parties (note 37), obligations under service concession (note 38), and loans from holders of non-controlling interests (note 39) are disclosed in the respective notes.

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risks respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 45% and 80% (2022: 45% and 80%) 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 2023, 67% (2022: 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 2023, 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$87 million/HK$83 million. Other components of consolidated equity would increase/decrease by approximately HK$527 million/HK$567 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 2022, a similar analysis was performed based on the assumption of a 100 basis points increase/100 basis points decrease in interest rates, with all other variables held constant, which 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.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as investment and procurement activities outside Hong Kong.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt at the parent company level as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements outside Hong Kong. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Company would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

30 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 20E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of the reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its consolidated statement of financial position. As at the end of the reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Group also manages and controls its exposure to credit risk in respect of receivables as stated in note 32.

31 Stores and Spares

As at 31 December 2023, stores and spares net of provision for obsolete stock of HK$27 million (2022: HK$25 million) amounted to HK$2,557 million (2022: HK$2,261 million), of which HK$1,817 million (2022: HK$1,607 million) is expected to be consumed within 1 year and HK$740 million (2022: HK$654 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 operations (except for that from the High Speed Rail as described in note 32(ii) below) is collected through Octopus Cards, QR code and contactless bank cards 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.

32 Debtors and Other Receivables *(continued)*

(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 analysis of debtors by due dates is as follows:

in HK$ million	**2023**	2022
Amounts not yet due	**5,118**	3,715
Overdue by within 30 days	**218**	210
Overdue by more than 30 days but within 60 days	**89**	74
Overdue by more than 60 days but within 90 days	**29**	27
Overdue by more than 90 days	**285**	284
Total debtors	**5,739**	4,310
Other receivables and contract assets	**8,017**	9,579
	13,756	13,889

Included in other receivables as at 31 December 2023 was HK$1,008 million (2022: HK$2,962 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 at a consideration of RMB1.3 billion; and MTR TJ No.1's future acquisition of a shopping mall to be developed on the same site at a consideration of RMB1.3 billion. The disposal of equity interest was completed on 10 July 2017 and consequently a prepayment is recognised on the Group's consolidated statement of financial position.

The construction of this shopping mall is targeted for completion in 2024. The Group is currently studying possible strategic options of this mall in light of the challenging retail property market conditions. 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 2023, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$3,535 million (2022: HK$4,735 million) which were expected to be recovered after more than one year. The nominal values less credit losses are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	**2023**	2022
Australian dollars	**6**	8
Renminbi	**77**	59
United States dollars	**24**	20

33 Amounts Due from Related Parties

in HK$ million	**2023**	2022
Amounts due from:		
– HKSAR Government	**896**	1,017
– KCRC	**4,318**	4,157
– associates	**588**	255
	5,802	5,429

As at 31 December 2023, 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.

As at 31 December 2023, the amount due from KCRC mainly related to the revenue receivable in respect of High Speed Rail and Shatin to Central Link under relevant supplemental service concession agreements.

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 2023, all amounts due from related parties were expected to be recovered within one year except for HK$2,763 million (2022: HK$2,788 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	**2023**	2022
Deposits with banks and other financial institutions	**16,282**	9,369
Cash at banks and on hand	**6,093**	6,765
Cash, bank balances and deposits	**22,375**	16,134
Less: Bank deposits with more than three months to maturity when placed or pledged deposits (note 35E)	**(6,800)**	(4,175)
Less: Structured bank deposits	**–**	(1,718)
Cash and cash equivalents in the consolidated statement of cash flows	**15,575**	10,241

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	**2023**	2022
Australian dollars	**70**	71
Euros	**36**	24
Japanese yen	**1,104**	770
Renminbi	**200**	32
United States dollars	**78**	193

35 Loans and Other Obligations

A By Type

in HK$ million	2023 Carrying amount	2023 Fair value	2023 Repayable amount	2022 Carrying amount	2022 Fair value	2022 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2024 to 2047 (2022: due during 2023 to 2047)	**22,031**	**20,820**	**22,475**	20,206	18,797	20,680
Unlisted:						
Debt issuance programme notes due during 2024 to 2055 (2022: due during 2023 to 2055)	**32,347**	**32,182**	**32,988**	20,588	20,063	21,365
Total capital market instruments	**54,378**	**53,002**	**55,463**	40,794	38,860	42,045
Bank loans	**2,411**	**2,411**	**2,411**	3,773	3,773	3,773
Lease liabilities	**720**	**720**	**720**	1,113	1,117	1,113
Others	**603**	**601**	**603**	574	574	574
Loans and other obligations	**58,112**	**56,734**	**59,197**	46,254	44,324	47,505
Short-term loans	**1,379**	**1,379**	**1,379**	1,592	1,592	1,592
Total	**59,491**	**58,113**	**60,576**	47,846	45,916	49,097

Others include non-defeased obligations under lease out/lease back transaction (note 20E).

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments. The carrying amounts of short-term loans approximated their fair values. Details of the fair value measurement are disclosed in note 43.

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

in million	Before hedging activities 2023	Before hedging activities 2022	After hedging activities 2023	After hedging activities 2022
Australian dollars	**381**	431	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
Renminbi	**4,725**	3,840	**–**	–
United States dollars	**2,714**	2,230	**–**	–

35 Loans and Other Obligations *(continued)*

B By Repayment Terms

in HK$ million	2023 Capital market instruments	2023 Bank loans	2023 Lease liabilities	2023 Others	2023 Total	2022 Capital market instruments	2022 Bank loans	2022 Lease liabilities	2022 Others	2022 Total
Loans and other obligations										
Amounts repayable beyond 5 years	**20,701**	**1,260**	**153**	**–**	**22,114**	22,235	1,289	203	–	23,727
Amounts repayable within a period of between 2 and 5 years	**13,080**	**605**	**153**	**–**	**13,838**	9,929	688	204	–	10,821
Amounts repayable within a period of between 1 and 2 years	**14,527**	**401**	**182**	**–**	**15,110**	7,155	148	202	574	8,079
Amounts repayable within 1 year	**7,155**	**145**	**232**	**603**	**8,135**	2,726	1,648	504	–	4,878
	55,463	**2,411**	**720**	**603**	**59,197**	42,045	3,773	1,113	574	47,505
Short-term loans	**–**	**1,379**	**–**	**–**	**1,379**	–	1,592	–	–	1,592
	55,463	**3,790**	**720**	**603**	**60,576**	42,045	5,365	1,113	574	49,097
Less: Unamortised discount/premium/finance charges outstanding	**(229)**	**–**	**–**	**–**	**(229)**	(246)	–	–	–	(246)
Adjustment due to fair value change of financial instruments	**(856)**	**–**	**–**	**–**	**(856)**	(1,005)	–	–	–	(1,005)
Total carrying amount of debt	**54,378**	**3,790**	**720**	**603**	**59,491**	40,794	5,365	1,113	574	47,846

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 by the Group during the years ended 31 December 2023 and 2022 comprise:

in HK$ million	2023 Principal amount	2023 Net consideration received	2022 Principal amount	2022 Net consideration received
Debt issuance programme notes	**16,144**	**16,127**	10,288	10,282

During the year ended 31 December 2023, the Group issued HK$1,200 million and RMB945 million (HK$1,044 million) of listed debt securities in the respective currency (2022: RMB510 million (HK$571 million)). The Group issued HK$9,337 million, RMB700 million (HK$777 million) and US$484 million (HK$3,786 million) of its unlisted debt securities in the respective currency (2022: HK$8,193 million and RMB1,320 million (HK$1,524 million) in the respective currency).

During the year ended 31 December 2023, the Group redeemed RMB410 million (HK$465 million) of its listed debt securities (2022: RMB1,350 million (HK$1,606 million)). The Group redeemed AUD50 million (HK$347 million), HK$1,500 million and RMB350 million (HK$414 million) of its unlisted debt securities in the respective currency (2022: HK$3,848 million and RMB250 million (HK$296 million) in the respective currency).

As at 31 December 2023 and 2022, there were outstanding debt securities issued by a wholly-owned subsidiary, MTR Corporation (C.I.) Limited ("MTRCI"). The obligations of the debt securities issued by MTRCI are direct, unsecured and unsubordinated to the other unsecured obligations of MTRCI which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

35 Loans and Other Obligations *(continued)*

D Lease Liabilities

At 31 December 2023 and 2022, the Group had lease liabilities as follows:

in HK$ million	2023 Present value of the minimum lease payments	2023 Total minimum lease payments	2022 Present value of the minimum lease payments	2022 Total minimum lease payments
Within 1 year	**232**	**248**	504	519
After 1 year but within 2 years	**182**	**193**	202	214
After 2 years but within 5 years	**153**	**167**	204	220
After 5 years	**153**	**163**	203	219
	488	**523**	609	653
	720	**771**	1,113	1,172
Less: Total future interest expenses		**(51)**		(59)
Present value of lease obligations		**720**		1,113

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 2023 and 2022.

(ii) As at 31 December 2023, 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 RMB725 million (HK$798 million) bank loan facility granted to it.

(iii) As at 31 December 2023, MTR CREC Metro (Shenzhen) Company Limited, a subsidiary of the Company in Mainland China, has pledged the fare and non-fare revenue in relation to Shenzhen Metro Line 13 as security for the RMB3.20 billion (HK$3.52 billion) bank loan facility granted to it.

Saved 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 2023.

36 Creditors, Other Payables and Provisions

in HK$ million	2023	2022
Creditors and accrued charges	**21,255**	19,583
Other payables, deferred income and provisions (notes 22B(b)(ii) & (c)(ii))	**52,303**	47,522
Contract liabilities	**3,124**	2,587
	76,682	69,692

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	2023	2022
Due within 30 days or on demand	**9,191**	8,143
Due after 30 days but within 60 days	**2,188**	2,012
Due after 60 days but within 90 days	**951**	886
Due after 90 days	**4,460**	4,544
	16,790	15,585
Rental and other refundable deposits	**2,498**	2,459
Accrued employee benefits	**1,967**	1,539
	21,255	19,583

The Group's general payment terms are one to two months from the invoice date.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

36 Creditors, Other Payables and Provisions *(continued)*

A Creditors and Accrued Charges *(continued)*

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2023	2022
Australian dollars	**13**	13
Euros	**13**	14
Japanese yen	**448**	280
Pound sterling	**11**	9
Renminbi	**90**	90
United States dollars	**36**	27

B Other Payables, Deferred Income and Provisions

Other payables included contract retentions. Deferred income related to (i) the surplus amounts of payments received from property developers in excess of the balance in property development in progress, (ii) portion of fair value amount of shopping mall received from property development in connection with the outstanding risks and obligations retained by the Group (note 13) as well as (iii) the unutilised government grant of HK$30,480 million (2022: HK$31,522 million).

C Contract Liabilities

Movements in contract liabilities of the Group during the year ended 31 December are as follows:

in HK$ million	2023	2022
Balance as at 1 January	**2,587**	2,874
Increase in contract liabilities as a result of billing in advance	**896**	386
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	**(368)**	(576)
Exchange differences	**9**	(97)
Balance as at 31 December	**3,124**	2,587

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 2023, except for unutilised government grant included in deferred income, contract liabilities and others of HK$56,873 million (2022: HK$52,075 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 2023 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid/refunded within three years. The Group considers the effect of discounting would be immaterial.

37 Amounts Due to Related Parties

in HK$ million	2023	2022
Amounts due to:		
– HKSAR Government	128	145
– KCRC	2,420	387
– associates	66	60
	2,614	592

The amount due to the HKSAR Government as at 31 December 2023 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2023 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

38 Obligations under Service Concession

Movements of the Group's obligations under service concessions are as follows:

in HK$ million	2023	2022
Balance as at 1 January	10,142	10,231
Less: Net amount repaid during the year	(81)	(75)
Exchange differences	(2)	(14)
Balance as at 31 December	10,059	10,142

The outstanding balances as at 31 December 2023 and 2022 are repayable as follows:

	2023			2022		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	9,577	12,310	21,887	9,689	13,016	22,705
Amounts repayable within a period of between 2 and 5 years	308	1,975	2,283	289	1,995	2,284
Amounts repayable within a period of between 1 and 2 years	90	671	761	84	678	762
Amounts repayable within 1 year	84	677	761	80	682	762
	10,059	15,633	25,692	10,142	16,371	26,513

39 Loans from Holders of Non-controlling Interests

Loans from holders of non-controlling interests as at 31 December 2023 mainly represents the portion of total shareholder loan of AUD60 million (HK$320 million) (2022: AUD60 million (HK$317 million)) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

40 Income Tax in the Consolidated Statement of Financial Position

A Current taxation in the consolidated statement of financial position includes:

in HK$ million	**2023**	2022
Balance relating to Hong Kong Profits Tax	**1,468**	2,833
Balance relating to tax outside Hong Kong	**155**	120
	1,623	2,953

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax arising from							
in HK$ million	Depreciation allowances in excess of related depreciation	Right-of-use assets	Lease liabilities	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2023								
Balance as at 1 January 2023	**13,980**	**56**	**(115)**	**799**	**(509)**	**18**	**(135)**	**14,094**
Charged/(credited) to profit or loss	**638**	**4**	**14**	**(34)**	**(102)**	**–**	**68**	**588**
Charged/(credited) to other comprehensive income	**–**	**–**	**–**	**5**	**(53)**	**(120)**	**–**	**(168)**
Reclassified as disposal group held for sale (note 49)	**–**	**1**	**–**	**–**	**–**	**–**	**28**	**29**
Exchange differences	**–**	**1**	**(5)**	**(4)**	**9**	**–**	**4**	**5**
Balance as at 31 December 2023	**14,618**	**62**	**(106)**	**766**	**(655)**	**(102)**	**(35)**	**14,548**
2022								
Balance as at 1 January 2022	13,598	71	(156)	786	(377)	1	(104)	13,819
Charged/(credited) to profit or loss	383	(11)	27	3	(152)	–	(44)	206
Charged/(credited) to other comprehensive income	–	–	–	9	(38)	17	–	(12)
Exchange differences	(1)	(4)	14	1	58	–	13	81
Balance as at 31 December 2022	13,980	56	(115)	799	(509)	18	(135)	14,094

Deferred tax assets and liabilities recognised in the consolidated statement of financial position are as follows:

in HK$ million	**2023**	2022
Net deferred tax assets	**(603)**	(606)
Net deferred tax liabilities	**15,151**	14,700
	14,548	14,094

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$3,420 million (2022: HK$844 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

	2023		2022	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,202,060,784**	**60,547**	6,193,462,514	60,184
Shares issued in respect of scrip dividend of 2022/2021 final ordinary dividend	**12,108,603**	**438**	5,772,961	246
Shares issued in respect of scrip dividend of 2023/2022 interim ordinary dividend	**3,027,895**	**97**	2,825,309	113
Vesting of shares of Executive Share Incentive Scheme	**–**	**1**	–	4
At 31 December	**6,217,197,282**	**61,083**	6,202,060,784	60,547

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 2023, 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). A total of 42,850 Performance Shares and 2,561,550 Restricted Shares were awarded and accepted by the grantees on 11 April 2023, and 60,900 Restricted Shares were awarded and accepted by a grantee on 25 September 2023 (2022: 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). The fair values of these awarded shares were HK$39.10 per share on 11 April 2023 and HK$30.30 per share on 25 September 2023 (2022: HK$42.35 per share on 1 April 2022 and HK$42.05 per share on 8 April 2022).

During the year ended 31 December 2023, 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 2,370,900 Ordinary Shares (2022: 2,560,000 Ordinary Shares) of the Company for a total consideration of approximately HK$93 million (2022: HK$109 million). During the year ended 31 December 2023, 67,245 Ordinary Shares (2022: 62,581 Ordinary Shares) of the Company were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$2 million (2022: HK$3 million).

During the year ended 31 December 2023, 2,040,524 award shares (2022: 2,172,518 award shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$88 million (2022: HK$95 million). During the year ended 31 December 2023, HK$1 million (2022: HK$4 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 2023, 223,120 award shares (2022: 255,491 award shares) were lapsed/forfeited.

As at 31 December 2023, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 6,494,757 shares (2022: 6,097,136 shares) held in trust under the Executive Share Incentive Scheme (excluding shares vested but not yet transferred to awardees).

41 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management *(continued)*

C 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 2T(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, as explained in the accounting policy under note 2U(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 2AA.

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$66,776 million (2022: HK$65,237 million) included in retained profits of the Company are non-distributable as they do not constitute realised profits. As at 31 December 2023, the Company considers that the total amount of reserves of the Company available for distribution to shareholders amounted to HK$41,036 million (2022: HK$43,684 million).

Included in the Group's retained profits as at 31 December 2023 is an amount of HK$4,425 million (2022: HK$3,837 million), being the retained profits attributable to the associates and joint ventures.

D 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 2023, representing 74.54% 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. As at 31 December 2023, the Group's net debt-to-equity ratio is 26.5% (2022: 23.3%).

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the SZL4 project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. All the Group's subsidiaries in Sweden are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2023, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

41 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management *(continued)*

E 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	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Retained profits	Total equity
2023								
Balance as at 1 January 2023	50	**60,547**	**(262)**	**3,824**	**(59)**	**146**	**108,980**	**173,176**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**7,896**	**7,896**
Other comprehensive income/(loss) for the year		**–**	**–**	**24**	**(608)**	**–**	**(266)**	**(850)**
Total comprehensive income/(loss) for the year		**–**	**–**	**24**	**(608)**	**–**	**7,630**	**7,046**
Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**(1)**	**–**	**–**	**(1)**
2022 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(5,520)**	**(5,520)**
Shares issued in respect of scrip dividend of 2022 final ordinary dividend		**438**	**(2)**	**–**	**–**	**–**	**2**	**438**
2023 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(2,610)**	**(2,610)**
Shares issued in respect of scrip dividend of 2023 interim ordinary dividend		**97**	**–**	**–**	**–**	**–**	**–**	**97**
Shares purchased for Executive Share Incentive Scheme		**–**	**(93)**	**–**	**–**	**–**	**–**	**(93)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		**1**	**88**	**–**	**–**	**(87)**	**(2)**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**119**	**–**	**119**
Balance as at 31 December 2023	50	**61,083**	**(269)**	**3,848**	**(668)**	**178**	**108,480**	**172,652**
2022								
Balance as at 1 January 2022		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

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 arising from recurrent businesses to cash generated from operations is as follows:

in HK$ million	2023	2022
Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment arising from recurrent businesses	**15,323**	7,852
Adjustments for non-cash items	**124**	527
Operating profit before working capital changes	**15,447**	8,379
Increase in debtors and other receivables	**(1,682)**	(307)
Increase in stores and spares	**(283)**	(185)
Decrease in creditors, other payables and provisions	**(11)**	(57)
Cash generated from operations	**13,471**	7,830

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

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Short-term loans	Interest and finance charges payables	Total
2023							
At 1 January 2023	**40,794**	**3,773**	**1,113**	**574**	**1,592**	**205**	**48,051**
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	**16,144**	**999**	**–**	**–**	**56,914**	**–**	**74,057**
– Repayment of loans and capital market instruments	**(2,726)**	**(2,395)**	**–**	**–**	**(57,058)**	**–**	**(62,179)**
– Capital element of lease rentals paid	**–**	**–**	**(567)**	**–**	**–**	**–**	**(567)**
– Interest and finance charges paid	**–**	**–**	**–**	**–**	**–**	**(1,869)**	**(1,869)**
	13,418	**(1,396)**	**(567)**	**–**	**(144)**	**(1,869)**	**9,442**
Exchange differences	**–**	**(32)**	**19**	**1**	**(3)**	**–**	**(15)**
Other changes:							
– Adjustment due to fair value change of financial instruments	**166**	**–**	**–**	**–**	**–**	**–**	**166**
– Recognition of lease liabilities	**–**	**–**	**155**	**–**	**–**	**–**	**155**
– Interest and finance charges	**–**	**–**	**–**	**28**	**–**	**1,953**	**1,981**
– Reclassification	**–**	**66**	**–**	**–**	**(66)**	**–**	**–**
	166	**66**	**155**	**28**	**(66)**	**1,953**	**2,302**
At 31 December 2023	**54,378**	**2,411**	**720**	**603**	**1,379**	**289**	**59,780**

42 Other Cash Flows Information *(continued)*

B Reconciliation of the Group's liabilities arising from financing activities is as follows *(continued)*:

in HK$ million	Loans and other obligations: Capital market instruments	Loans and other obligations: Bank loans	Loans and other obligations: Lease liabilities	Loans and other obligations: Others	Short-term loans	Interest and finance charges payables	Total
2022							
At 1 January 2022	37,027	3,501	1,026	548	1,650	139	43,891
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	10,287	3,053	–	–	28,306	–	41,646
– Repayment of loans and capital market instruments	(5,750)	(2,549)	–	–	(28,430)	–	(36,729)
– Capital element of lease rentals paid	–	–	(149)	–	–	–	(149)
– Interest and finance charges paid	–	–	–	–	–	(961)	(961)
	4,537	504	(149)	–	(124)	(961)	3,807
Exchange differences	–	(159)	(51)	–	(7)	–	(217)
Other changes:							
– Adjustment due to fair value change of financial instruments	(770)	–	–	–	–	–	(770)
– Recognition of lease liabilities	–	–	287	–	–	–	287
– Interest and finance charges	–	–	–	26	–	1,027	1,053
– Reclassification	–	(73)	–	–	73	–	–
	(770)	(73)	287	26	73	1,027	570
At 31 December 2022	40,794	3,773	1,113	574	1,592	205	48,051

C Total Cash Outflows for Leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

in HK$ million	**2023**	2022
Within operating cash flows	**27**	46
Within financing cash flows	**607**	264
	634	310

These amounts relate to the leases of the following:

in HK$ million	**2023**	2022
Buildings	**192**	214
Plant and equipment	**442**	116
	634	330

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 2023 and 2022, 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 2023 and 2022 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 2023 was 3.5% – 5.75% (2022: 3.5% – 5.75%) with a weighted average of 4.8% (2022: 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 2023 are shown in note 20A. All the fair value adjustment related to remeasurement on investment properties held as at 31 December 2023 was recognised under "Gain/(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 2023, there were HK$298 million (2022: HK$290 million) of listed debt securities carried at fair value using Level 1 measurements and HK$564 million (2022: HK$669 million) of unlisted equity securities carried at fair value using Level 3 measurements.

The Group's derivative financial instruments were carried at fair value using Level 2 measurements. As at 31 December 2023, the fair values of derivative financial assets and derivative financial liabilities were HK$240 million (2022: HK$216 million) and HK$1,710 million (2022: HK$1,104 million) respectively.

Included in the Group's cash, bank balances and deposits as at 31 December 2022, there were HK$1,718 million of structured bank deposits carried at fair value using Level 3 measurements. The fair values of structured bank deposits were based on the statements provided by the counterparty financial institutions.

43 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies and the cross currency basis curves of the respective currency pairs at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

The fair value of the Group's investments in unlisted equity securities is determined based on the adjusted net asset method. The significant unobservable input includes the fair value of the individual assets less liabilities (recognised and unrecognised). The fair value measurement is positively correlated to the fair value of the individual assets less liabilities (recognised and unrecognised). The movements of the investments in unlisted equity securities during the year are as follows:

in HK$ million	**2023**	2022
At 1 January	**669**	708
Additions	**66**	39
Disposal	**(203)**	(57)
Changes in fair value recognised in profit or loss	**46**	38
Exchange differences recognised in other comprehensive income	**(14)**	(59)
At 31 December	**564**	669

As at 31 December 2023, it is estimated that a 5-percent increase/decrease (2022: 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$22 million/HK$22 million (2022: HK$25 million/HK$25 million).

During the year ended 31 December 2023, the disposal of structured bank deposits amounted to HK$1,718 million (31 December 2022: additions amounted to HK$1,718 million). As at 31 December 2022, the fair value of structured bank deposits was HK$1,718 million. The fair value was 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 2023 and 2022, 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 2023 and 2022 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 31 December 2023		At 31 December 2022	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**54,378**	**53,002**	40,794	38,860
Other obligations	**1,323**	**1,321**	1,687	1,691

The above fair value measurement is categorised as Level 2. The discount 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 – 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 2023 and 2022 were offered to Members of the Executive Directorate and selected employees of the Group under the Executive Share Incentive Scheme:

	Number of Award Shares granted		Fair value per share	Vesting period	
Date of award	Restricted Shares	Performance Shares	HK$	From	To
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	1 April 2022	1 April 2025 (Restricted Shares) 1 April 2024 (Performance Shares)
11 April 2023	**2,561,550**	**42,850**	**39.10**	**3 April 2023**	**3 April 2026 (Restricted Shares) 1 April 2024 (Performance Shares)**
25 September 2023	**60,900**	**–**	**30.30**	**19 September 2023**	**19 September 2026**

Movement in the number of Award Shares outstanding was as follows:

	2023	2022
	Number of Award Shares	Number of Award Shares
Outstanding as at 1 January	**5,824,808**	5,372,867
Awarded during the year	**2,665,300**	2,879,950
Vested during the year	**(2,040,524)**	(2,172,518)
Forfeited during the year	**(223,120)**	(255,491)
Outstanding as at 31 December	**6,226,464**	5,824,808

44 Share-based Payments *(continued)*

Equity-settled Share-based Payments – Executive Share Incentive Scheme *(continued)*

Award Shares outstanding at 31 December 2023 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
8 April 2021	0.25	497,096
1 April 2022	1.25	132,000
8 April 2022	1.25	1,423,668
11 April 2023	**2.25**	**2,447,000**
25 September 2023	**2.72**	**60,900**
Performance Shares		
8 April 2021	0.25	1,426,750
8 April 2022	0.25	196,200
11 April 2023	**0.25**	**42,850**

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2023, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$119 million (2022: HK$118 million) (note 10A).

45 Retirement Schemes

The Group operates or participates in a number of retirement schemes in Hong Kong, 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 2023, 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 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 2023, the total number of members was 2,313 (2022: 2,571). In 2023, members contributed HK$52 million (2022: HK$55 million) and the Company contributed HK$73 million (2022: HK$25 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 2023 was HK$7,316 million (2022: HK$7,500 million).

The actuarial valuations as at 31 December 2023 and 2022 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 2023 and 2022 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 2023 included a long-term rate of investment return net of salary increases of 1.90% (2022: 2.50%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement.

45 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

As at the valuation date of 31 December 2023, under the situation that the value of members' voluntary contributions was included:

(a) the MTR Retirement Scheme was solvent, covering 100.4% (2022: 100.2%) of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency surplus of HK$30 million (2022: 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 100.3% (2022: 100.2%), representing a past service surplus of HK$25 million (2022: 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 2023, the total number of employees participating in the MTR Provident Fund Scheme was 10,717 (2022: 10,397). In 2023, total members' contributions were HK$180 million (2022: HK$164 million) and total contributions from the Company were HK$405 million (2022: HK$374 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2022: HK$48 million were utilised). As at 31 December 2023, forfeited contributions of HK$90 million (2022: HK$70 million) were available to reduce the contributions payable in future years. The net asset value as at 31 December 2023 was HK$7,049 million (2022: HK$6,583 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 2023, the total number of employees participating in the MTR MPF Scheme was 5,382 (2022: 4,773). In 2023, total members' contributions were HK$58 million (2022: HK$51 million) and total contribution from the Company were HK$63 million (2022: HK$55 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2022: HK$nil). As at 31 December 2023, there were no forfeited contributions (2022: 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 2023, the total number of employees participating in the KCRC MPF Scheme was 214 (2022: 257). In 2023, total members' contributions were HK$3 million (2022: HK$3 million) and total contribution from the Company were HK$3 million (2022: HK$3 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2022: HK$nil). As at the end of the reporting period, no forfeited contributions (2022: 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 2023, total number of the Group's employees participating in this scheme was 395 (2022: 451). In 2023, total members' contributions were HK$15 million (2022: HK$20 million) and total contribution from the Group was HK$58 million (2022: HK$60 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 2023, total number of the Group's employees participating in this scheme was 650 (2022: 717). In 2023, total contribution from the Group was HK$12 million (2022: HK$17 million).

45 Retirement Schemes *(continued)*

B Retirement Schemes for Employees of Mainland China and Overseas Offices of the Company and Subsidiaries *(continued)*

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2023, total number of the Group's employees participating in this scheme was 829 (2022: 820). In 2023, total members' contributions were HK$36 million (2022: HK$33 million) and total contribution from the Group was HK$54 million (2022: HK$50 million). Pension expense of HK$132 million (2022: HK$128 million) was recognised in profit or loss and actuarial gain of HK$72 million (2022: HK$72 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, Mainland China, Macao or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For Mainland China, Macao or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2023, the total number of employees of the Group participating in these schemes was 17,383 (2022: 16,717). In 2023, total members' contributions were HK$109 million (2022: HK$122 million) and total contribution from the Group was HK$707 million (2022: HK$683 million). During the years ended 31 December 2023 and 2022, the amount of contributions forfeited in accordance to the schemes' rules, if applicable, is not significant.

46 Defined Benefit Retirement Scheme

The Company makes contributions to and recognises defined benefit liabilities in respect of the MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 45). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A Amounts Recognised in the Consolidated Statement of Financial Position

in HK$ million	**2023**	2022
Present value of defined benefit obligations	**(7,713)**	(7,488)
Fair value of scheme assets	**7,316**	7,500
Net (liabilities)/assets	**(397)**	12

The net liabilities (2022: net assets) are recognised under "Creditors, other payables and provisions" (2022: "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$97 million in contribution to the MTR Retirement Scheme in 2024.

46 Defined Benefit Retirement Scheme *(continued)*

B Scheme Assets

in HK$ million	**2023**	2022
Equity securities		
– Financial institutions	**231**	223
– Non-financial institutions	**2,319**	2,016
	2,550	2,239
Bonds		
– Government	**1,971**	1,448
– Non-government	**1,513**	1,371
	3,484	2,819
Cash	**1,498**	2,645
	7,532	7,703
Voluntary units	**(216)**	(203)
	7,316	7,500

The scheme assets did not include any ordinary shares of the Company as at 31 December 2023 and 2022. Also, there were no investment in other shares and debt securities of the Company as at 31 December 2023 and 2022. 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 have been 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 years ended 31 December 2022 and 2023.

C Movements in the Present Value of the Defined Benefit Obligations

in HK$ million	**2023**	2022
At 1 January	**7,488**	8,887
Remeasurements:		
– Actuarial losses/(gains) arising from changes in liability experience	**151**	(55)
– Actuarial losses/(gains) arising from changes in demographic assumptions	**–**	–
– Actuarial losses/(gains) arising from changes in financial assumptions	**442**	(713)
	593	(768)
Members' contributions paid to the scheme	**52**	55
Benefits paid by the scheme	**(906)**	(1,004)
Current service cost	**164**	196
Interest cost	**322**	122
At 31 December	**7,713**	7,488

The weighted average duration of the present value of the defined benefit obligations was 4.4 years as at 31 December 2023 (2022: 4.5 years).

46 Defined Benefit Retirement Scheme *(continued)*

D Movements in the Fair Value of Scheme Assets

in HK$ million	2023	2022
At 1 January	**7,500**	9,294
Company's contributions paid to the scheme	**73**	25
Members' contributions paid to the scheme	**52**	55
Benefits paid by the scheme	**(906)**	(1,004)
Administrative expenses paid from scheme assets	**(3)**	(3)
Interest income	**326**	128
Return on scheme assets, excluding interest income	**274**	(995)
At 31 December	**7,316**	7,500

E Expenses Recognised in Profit or Loss and Other Comprehensive Income

in HK$ million	2023	2022
Current service cost	**164**	196
Net interest on net defined benefit asset	**(4)**	(6)
Administrative expenses paid from scheme assets	**3**	3
	163	193
Less: Amount capitalised	**(40)**	(42)
Net amount recognised in profit or loss	**123**	151
Actuarial losses/(gains)	**593**	(768)
Return on scheme assets, excluding interest income	**(274)**	995
Amount recognised in other comprehensive income	**319**	227

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

	2023	2022
Discount rate	**3.82%**	4.78%
Future salary increase	**4.60%**	4.00%
Unit value increase	**6.50%**	6.50%

The below analysis shows how the present value of the defined benefit obligations as at 31 December would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2023		2022	
	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million
Discount rate	**(82)**	**84**	(80)	82
Future salary increase	**67**	**(64)**	62	(59)
Unit value increase	**17**	**(15)**	22	(20)

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 74.54% of the Company's issued share capital on trust for the HKSAR Government as at 31 December 2023, 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 2023, amount recoverable or invoiced by the Company under West Rail Agency Agreement is HK$44 million (2022: HK$53 million) and the net amounts payable or paid by the Company in relation to the Service Concession is HK$3,105 million (2022: HK$1,073 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 2023, net revenue received or receivable from KCRC in respect of the High Speed Rail amounted to HK$870 million (2022: HK$1,476 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

47 Material Related Party Transactions *(continued)*

F The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the Shatin to Central Link ("SCL"):

(i) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 11 February 2020, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the First Phase of the Tuen Ma Line.

(ii) A supplemental service concession agreement no. 2, which was entered into with KCRC on 11 February 2020, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the First Phase of the Tuen Ma Line and to prescribe the operational and financial requirements that will apply to the First Phase of the Tuen Ma Line.

(iii) An amendment operating agreement, a supplemental operating agreement and the Amendment No.1 to Memorandum on Performance Requirements, which were entered into with the HKSAR Government on 21 June 2021, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the Tuen Ma Line, being the first part of the SCL.

(iv) A supplemental service concession agreement no. 3, which was entered into with KCRC on 21 June 2021 and superseded and replaced the supplemental service concession agreement no. 2 dated 11 February 2020 (note 47F(ii)), to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the Tuen Ma Line, being the first part of the SCL, and to prescribe the operational and financial requirements that will apply to the Tuen Ma Line.

(v) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 10 May 2022, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the SCL as a whole.

(vi) A supplemental service concession agreement no. 4, which was entered into with KCRC on 10 May 2022 and superseded and replaced the supplemental service concession agreement no. 3 dated 21 June 2021 (note 47F(iv)), to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of SCL as a whole, and to prescribe the operational and financial requirements that will apply to the SCL as a whole.

During the year ended 31 December 2023, net revenue received or receivable from KCRC in respect of Shatin to Central Link under relevant supplemental service concession agreement amounted to HK$635 million (2022: Tuen Ma Line and Shatin to Central Link of HK$496 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 (i), (iii), (v) and (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$347 million was paid/payable to the HKSAR Government (net of amount received/receivable) in 2023 (2022: HK$636 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

47 Material Related Party Transactions *(continued)*

H On 23 September 2022, (i) the Company accepted the HKSAR Government's Land Exchange Offer for development of the Company's existing Siu Ho Wan depot and (ii) the Company also entered into the project agreement with the HKSAR Government for the financing, design, construction, pre-operation, operation and maintenance of the Oyster Bay Station to cater for the transportation needs of the new community, together referred to as Oyster Bay Project. The land exchange documents for the Oyster Bay Project was executed by both the Company and the HKSAR Government on 25 November 2022.

The Oyster Bay Project involves, inter alia, re-provision of the existing Siu Ho Wan depot and provision of property enabling works (including roof deck over the depot for top-side property development) to enable property development on the depot site, as well as the construction of a new station, Oyster Bay Station, to serve the future community.

During the year ended 31 December 2022, land premium of HK$8.6 billion was paid by the Company to the HKSAR Government for Oyster Bay Project. When determining the land premium for the Land Exchange, costs in relation to the construction of the new Oyster Bay Station, re-provision of the depot, property enabling works (including roof deck over the depot for top-side property development) and site formation were accepted by the HKSAR Government as deductible costs and were deducted from the land premium assessment on a full market basis for the Land Exchange. The amount deducted is accounted for as government grant and included in Creditors, Other Payables and Provisions (note 36B), after offsetting against the respective capital expenditure in Other Property, Plant and Equipment (note 20B), Railway Construction in Progress (note 23) and Property Development in Progress (note 24) during the years ended 31 December 2022 and 2023.

I The Company entered into project agreements with the HKSAR Government for the financing, design, construction, completion, pre-operation, operation and maintenance of new railway extensions and the granting of development rights for commercial and residential property sites along these railway extensions. Pursuant to these project agreements, total amount of land premium payable by the Company in respect of these proposed property developments along these railway extensions shall be assessed by the Government as the full market value of the site (taking into account the presence of the railway) less the agreed reduction amounts for the purpose of bridging the funding gaps of these new railway extensions. These proposed property development sites 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 agreed reduction amount being deducted.

Project agreements on railway extensions entered in the current year include:

(i) Project agreement in respect of the Tung Chung Line Extension, which was signed on 28 February 2023. Pursuant to the project agreement in respect of the proposed property development at new Tung Chung East Station, total reduction amount of HK$18,365 million would be deducted at the amount of land premium actually payable by the Company.

(ii) Project agreement in respect of the Kwu Tung Station, which was signed on 5 September 2023. Pursuant to the project agreement in respect of the proposed property development at Kwu Tung, total reduction amount of HK$15,160 million would be deducted at the amount of land premium actually payable by the Company; and

(iii) Project agreement in respect of the Tuen Mun South Extension, which was signed on 5 September 2023. Pursuant to the project agreement in respect of the proposed property development at Tuen Mun, total reduction amount of HK$24,201 million would be deducted at the amount of land premium actually payable by the Company.

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$180 million was recognised as consultancy income during the year ended 31 December 2023 (2022: HK$133 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 2023, the Group incurred HK$133 million (2022: HK$94 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of OHL. OCL incurred HK$47 million (2022: HK$31 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$422 million (2022: HK$300 million) and distributed HK$361 million (2022: HK$150 million) of dividends to the Group.

47 Material Related Party Transactions *(continued)*

L During the year ended 31 December 2023, 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$6 million) (2022: AUD1 million or HK$5 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 AUD121 million (HK$629 million) (2022: AUD110 million or HK$600 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 AUD43 million (HK$222 million) (2022: AUD6 million or HK$34 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 AUD239 million (HK$1,242 million) (2022: AUD407 million or HK$2,222 million).

M During the year ended 31 December 2022, the Group had 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.

N Other than those stated in notes 47A to 47M, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 33 and 37.

O The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 11A. In addition, Members of the Executive Directorate were granted award shares under the Executive Share Incentive Scheme. Details of the terms of these award shares are disclosed in note 11B and the Report of the Members of the Board. Their gross remuneration charged to the consolidated statement of profit or loss is summarised as follows:

in HK$ million	**2023**	2022
Short-term employee benefits	**100.9**	94.2
Post-employment benefits	**7.0**	6.5
Share-based payments	**22.8**	29.9
	130.7	130.6

The above remuneration is included in staff costs and related expenses disclosed in note 10A.

P During the year, the following dividends were paid to the FSI of the HKSAR Government:

in HK$ million	**2023**	2022
Ordinary dividends		
– Cash dividends paid	**6,071**	6,673

48 Commitments, Contingent Liabilities and Legal Proceedings

A Capital Commitments

(i) Outstanding capital commitments as at 31 December not provided for in the consolidated financial statements were as follows:

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects (note a)	Hong Kong property rental and development	Mainland China and overseas operations (note b)	Total
At 31 December 2023					
Authorised but not yet contracted for	**32,082**	**36,018**	**3,263**	**1,027**	**72,390**
Authorised and contracted for	**18,883**	**19,934**	**10,800**	**2,130**	**51,747**
	50,965	**55,952**	**14,063**	**3,157**	**124,137**
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

Notes:

(a) As at 31 December 2023, capital commitments of Hong Kong railway extension project included costs of HK$55.5 billion in respect of which the project agreement has been signed, remaining costs of HK$0.5 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 2023. The costs concerned are dealt with in accordance with the accounting policy set out in note 2I.

(b) As at 31 December 2023, capital commitment of Mainland China and overseas operations included the authorised outstanding commitments totalling HK$3.1 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$1,624 million). Up to 31 December 2023, 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$67.8 million) and loans of approximately AUD13.3 million (HK$71.0 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:

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2023				
Authorised but not yet contracted for	**24,146**	**2,992**	**4,944**	**32,082**
Authorised and contracted for	**15,149**	**1,550**	**2,184**	**18,883**
	39,295	**4,542**	**7,128**	**50,965**
At 31 December 2022				
Authorised but not yet contracted for	24,352	2,165	4,444	30,961
Authorised and contracted for	15,379	983	2,337	18,699
	39,731	3,148	6,781	49,660

48 Commitments, Contingent Liabilities and Legal Proceedings *(continued)*

B Liabilities and Commitments in respect of Property Management Contracts

The Company and certain subsidiaries, namely Hanford Garden Property Management Company Limited, Royal Ascot Management Company Limited and Sun Tuen Mun Centre Management Company Limited, are holders of Property Management Company Licence (licence number: C-114608, C-515001, C-363023 and C-931638 respectively). Over the years, the Group has jointly developed with third party 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 third party 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 2023, the Group had total outstanding liabilities and contractual commitments of HK$3,788 million (2022: HK$3,433 million) in respect of these works and services. Cash funds totalling HK$3,822 million (2022: HK$3,485 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 Service Concession in respect of the Rail Merger and Operating Arrangements for HSR and SCL

Pursuant to the Rail Merger and Operating Arrangements for HSR and SCL, the Company is obliged under the SCA to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession and recognised as obligations under service concession in the statement of financial position. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system (including HSR & SCL) above certain thresholds. Furthermore, under the SCA, SSCA-HSR and SSCA3-SCL, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the periods of the service concession which is to be returned at the expiry of the service concession.

D 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$61 million (HK$479 million) as at 31 December 2023. 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$74 million (HK$576 million) as at 31 December 2023.

(ii) 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$15,783 million (in notional amount) as at 31 December 2023. 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.

(iii) In respect of the Melbourne Train Franchise, the Group has provided to the Public Transport Victoria a parent company guarantee of AUD173 million (HK$923 million) and a performance bond of AUD66 million (HK$352 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$26 million) as at 31 December 2023 for the monthly rental payments to the landlords.

(iv) In respect of the Sydney Metro North West Franchise, the Group has provided to NRT Pty Ltd a parent company guarantee with a liability cap of AUD1,526 million (HK$8,146 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$95 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$788 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$135 million) as at 31 December 2023 for the operation and maintenance of Sydney Metro North West.

(v) 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$3,214million) 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$582 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$147 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$1,180 million) and a parent company guarantee to MTR Corporation (Sydney) SMCSW Pty Limited with a liability cap of AUD221 million (HK$1,180 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$139 million) as at 31 December 2023.

48 Commitments, Contingent Liabilities and Legal Proceedings *(continued)*

D Material Financial and Performance Guarantees *(continued)*

(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 MOP241 million (HK$234 million) as at 31 December 2023 for the performance and other obligations under the project.

(vii) In respect of the Mälartåg Franchise in Sweden, the Group has provided to Mälardalstrafik a bank guarantee of SEK300 million (HK$210 million) as at 31 December 2023, 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 Stockholms Pendeltåg Franchise, the Group has provided to Stockholm transport authority a guarantee of SEK1,000 million (HK$782 million) as at 31 December 2023 for the performance and other obligations under the concession agreements until the termination date.

(ix) In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$782 million) as at 31 December 2023, 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.

(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$58 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 RMB265 million (HK$292 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$797 million) and a performance bond of GBP25 million (HK$249 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$10 million) as at 31 December 2023 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$18 million) and an early termination indemnity of GBP1.8 million (HK$18 million) as at 31 December 2023 for the performance and other obligations under the National Rail Contract. The Group has provided a funding deed bond of GBP0.9 million (HK$9 million) and an early termination indemnity agreement bond of GBP0.9 million (HK$9 million) as at 31 December 2023 for aforementioned obligations.

Saved as disclosed elsewhere in the consolidated financial statements, no other provision was recognised in respect of the above financial and performance guarantees and contingent liabilities as at 31 December 2023.

48 Commitments, Contingent Liabilities and Legal Proceedings *(continued)*

E Contingent Liabilities and Legal Proceedings

The Company has not received notification of any legal or arbitration proceedings in relation to the construction of either the HSR Project or the SCL Project. The potential for future proceedings in relation to the construction of: (i) the HSR Project are set out in note 22A; and (ii) the SCL Project are set out in note 22B.

As discussed in note 16, the Company has objected to the notices of profits tax assessments/additional profits tax assessments for years of assessment from 2009/2010 to 2017/2018 which disallowed deduction of certain payments relating to the Rail Merger.

A collective action has been launched against several train operators in the United Kingdom, including First MTR South Western Trains Limited. The action alleges that the train operators breached the competition law by abusing their dominant positions. Specifically, the plaintiff claims that the operators failed to make sufficiently available a specific type of tickets offering "boundary fares" to Travelcard holders, resulting in double-charging the affected passengers for part of their journeys. Court trials for the action will be split into three separate stages, with the first trial to begin in June 2024. Whilst the Company is not separately named in the action, it is a 30% shareholder in the First MTR South Western Trains Limited. It is not possible at this time to predict with certainty what liability, if any, the Company might have in respect of this collective action.

Other than the above, whilst the Company may be involved in legal proceedings in the ordinary course of business from time to time, neither the Company nor any of its directors were involved in any litigation, arbitration or administrative proceedings, which in a material way impact on the Company's business, financial condition or operations. As of the date of this financial statements, the Company is not aware of any pending or threatened litigation, arbitration or administrative proceedings against the Company or its directors, which would have a material and adverse impact on the Company's business, financial condition, or operations.

49 Assets and Liabilities of Disposal Group Classified as Held For Sale

in HK$ million	**2023**	2022
Assets		
Other property, plant and equipment	**356**	–
Deferred tax assets	**29**	–
Debtors and other receivables	**20**	–
Cash, bank balances and deposits	**94**	–
Assets of disposal group classified as held for sale	**499**	–
Liabilities		
Creditors, other payables and provisions	**99**	–
Liabilities of disposal group classified as held for sale	**99**	–

In 2023, the Group had conducted a strategic review (including divestment) of MTR Express (Sweden) AB, a wholly-owned subsidiary of the Group operating MTRX service in Sweden. With the implementation of an active sale programme, the sale of MTR Express (Sweden) AB is considered as highly probable at 31 December 2023. As such, assets of HK$499 million and liabilities of HK$99 million of MTR Express (Sweden) AB were reclassified as "disposal group held for sale" in the consolidated statement of financial position as at 31 December 2023. Subsequent to the end of reporting period, the Group entered into an agreement with an independent third party on 8 February 2024 for the sale of MTR Express (Sweden) AB. The transaction is expected to be completed by the end of May 2024, following regulatory approval. Subject to the completion of the transaction, the gain to be recognised by the Group in the consolidated statement of profit or loss for the year ending 31 December 2024 arising from the transaction is not expected to be material.

50 Company-level Statement of Financial Position

in HK$ million	**At 31 December 2023**	At 31 December 2022
Assets		
Fixed assets		
– Investment properties	**95,980**	89,335
– Other property, plant and equipment	**102,134**	100,180
– Service concession assets	**30,940**	29,959
	229,054	219,474
Property management rights	**10**	11
Railway construction in progress	**4,256**	–
Property development in progress	**41,728**	41,269
Deferred expenditure	**376**	2,540
Investments in subsidiaries	**4,147**	3,123
Interests in associates	**410**	410
Properties held for sale	**1,927**	1,876
Derivative financial assets	**240**	216
Stores and spares	**1,782**	1,570
Debtors and other receivables	**7,815**	8,050
Amounts due from related parties	**21,472**	22,330
Cash, bank balances and deposits	**14,197**	7,124
	327,414	307,993
Liabilities		
Short-term loans	**1,200**	1,500
Creditors, other payables and provisions	**66,929**	60,505
Current taxation	**1,460**	2,827
Amounts due to related parties	**18,697**	16,901
Loans and other obligations	**39,898**	27,497
Obligations under service concession	**9,898**	9,976
Derivative financial liabilities	**1,710**	1,104
Deferred tax liabilities	**14,970**	14,507
	154,762	134,817
Net assets	**172,652**	173,176
Capital and reserves		
Share capital	**61,083**	60,547
Shares held for Executive Share Incentive Scheme	**(269)**	(262)
Other reserves	**111,838**	112,891
Total equity	**172,652**	173,176

Approved and authorised for issue by the Members of the Board on 7 March 2024

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Michael G Fitzgerald
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 2H).

(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 2G(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 2H) 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.

51 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following *(continued)*:

(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 (note 22) and provisions for onerous contracts (note 7)), 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 notes 22 and 48E, as at 31 December 2023, 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 2023

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amended standards, which are not yet effective for the year ended 31 December 2023 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
Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants*	1 January 2024
Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*	1 January 2024
Amendments to HKAS 7, *Statement of cash flows* and HKFRS 7, *Financial Instruments: Disclosures: Supplier finance arrangements*	1 January 2024
Hong Kong Interpretation 5 (Revised), *Presentation of Financial Statements: Classification by the borrower of a term loan that contains a repayment on demand clause*	1 January 2024
Amendments to HKAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	1 January 2025

The Group is in the process of making an assessment of what the impact of these 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 7 March 2024.