> *"The Corporation has been working closely with both the Government and MTRCL .... facilitating the progression .... of the projects."*

Several railway projects are underway connecting to the railway network of the Corporation. They include the proposed Northern Link ("NOL") which will be connected to the East Rail Line ("EAL") and Tuen Ma Line ("TML") of the Corporation, the Kwu Tung Station ("KTU") at EAL, the Hung Shui Kiu Station ("HSK") at TML and the Tuen Mun South Extension ("TME") which is an extension of TML.

These railway projects are of significance to the strategic development of Hong Kong and / or the local communities. NOL will be the main transportation backbone of the Northern Metropolis which is a new engine for Hong Kong's future growth forging a major hub to integrate with the Greater Bay Area. KTU will serve the transport need of the Kwu Tung North New Development Area ("NDA"), which is the first NDA project of the Northern Metropolis proceeded to the construction stage, to support its growth in population and employment opportunities. HSK and TME will provide direct railway linkage to Hung Shui Kiu / Ha Tsuen NDA and the community south of the current Tuen Mun town center respectively offering an efficient alternative commuting choice to the residents.

The railway projects, which are undertaken by MTR Corporation Limited ("MTRCL"), have proposed works within the Corporation's land and facilities. The Corporation has been working closely with both the Hong Kong Special Administrative Region Government ("the Government") and MTRCL to resolve the various issues thus arising including land matters, legal matters, demarcation of assets etc. in a swift and collaborative manner facilitating the progression of the planning and design work of the projects.

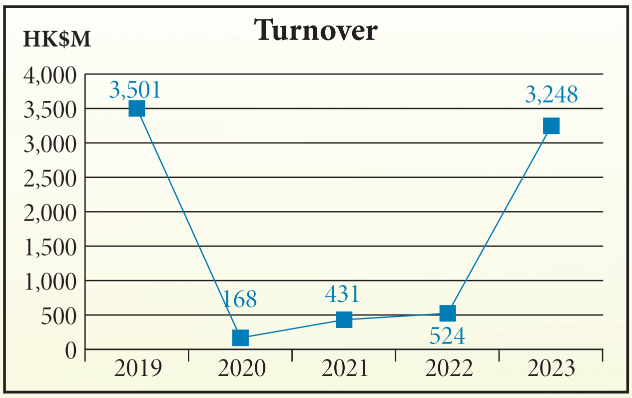
The Corporation is wholly owned by the Government. It conducts its business according to prudent commercial principles and at the same time serves the needs of the city's public transport system as required under the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) ("the KCRC Ordinance"). Besides, MTRCL is the Corporation's business partner in operating the Corporation's railway network under the Service Concession Agreement ("SCA") and the Supplemental Service Concession Agreements ("SSCAs"). The Corporation has been conducting its business with these two key stakeholders in a spirit of cooperation and mutual support.

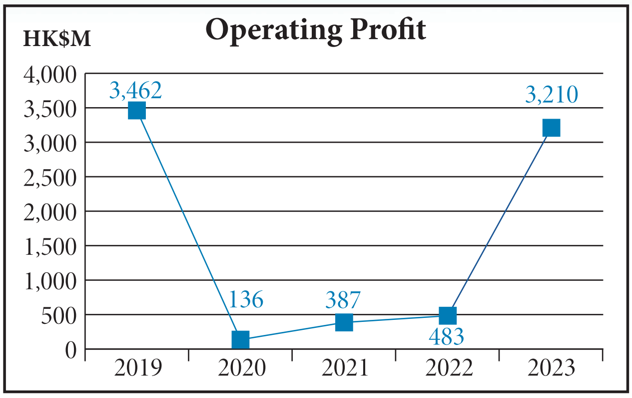
Currently, the Corporation is not involved in the construction of any new railway project or operation of railway network and has no major capital cost, operation cost or railway asset replacement expenditure. With its business focus as a railway asset holder after the Rail Merger in 2007, the Corporation enjoyed a relatively steady stream of income under the SCA and the SSCAs with MTRCL.

The Corporation recorded accounting profits in 2018 and 2019 but the trend was reversed in 2020 as a result of the COVID-19 pandemic. Nonetheless, with the recovery of domestic and Express Rail Link patronage as Hong Kong is returning to normalcy from the pandemic and the expansion of the railway network of the Corporation, an accounting profit was recorded again in 2023.

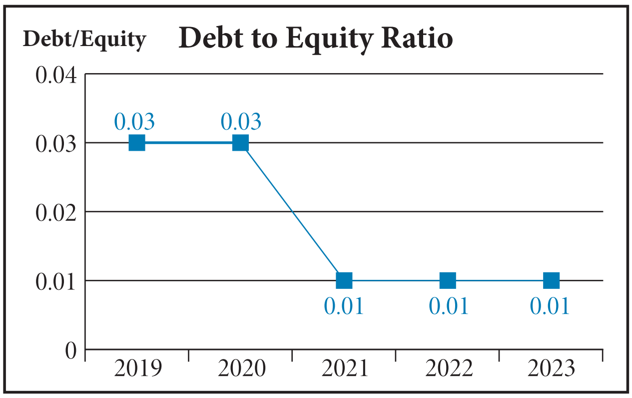
Although not being publicly listed, the Corporation, for good corporate governance, complies with the requirements for listed companies of the Stock Exchange of Hong Kong Limited as far as practicable and has been preparing its annual accounts following the commercial accounting standards as required under the KCRC Ordinance. In 2023, the Corporation continued to fully comply with all relevant laws and regulations.

The Corporation adopts five Key Performance Indicators, namely Turnover, Operating Profit, Debt to Equity Ratio, Interest Cover and Profit/(Loss) to evaluate its financial position.

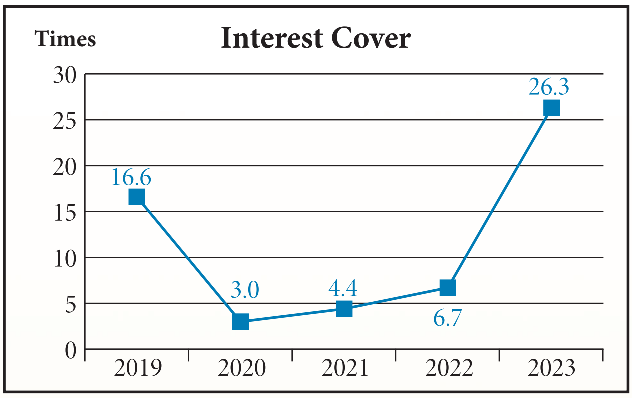




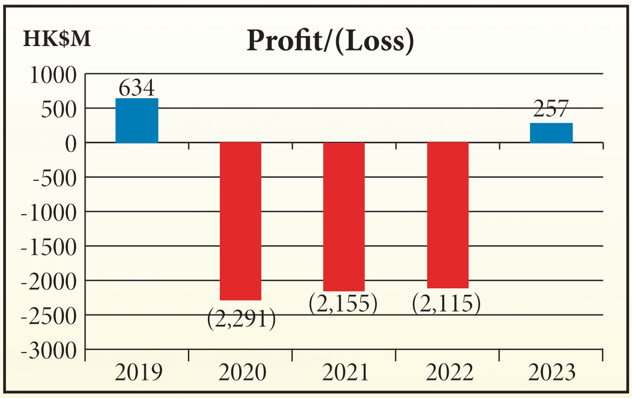
See Note 1



See Note 2



See Note 3



Note 1: Operating Profit is before depreciation, amortisation and impairment.

Note 2: $$\text{Debt to Equity Ratio} = \frac{\text{Interest-bearing borrowings}}{\text{Total equity}}$$

Note 3: $$\text{Interest Cover} = \frac{\text{Operating profit before depreciation, amortisation and impairment + Interest and finance income + Share of profit of associate}}{\text{Interest and finance expenses}}$$

The Corporation's revenue mainly comes from the annual payments under the SCA and SSCAs, comprising Fixed and Variable Annual Payments. The Variable Annual Payment for 2023 increased by about 629% as compared with 2022, from HK$323 million to HK$2,355 million, which was mainly attributed to the substantial increase in patronage in 2023 from 2022.

The Corporation also recognised rental income of HK$28 million from leasing the 7th to 10th floors of Citylink Plaza, dividends of HK$145 million arising from the Corporation's 22.1% shareholding in Octopus Holdings Limited and interest income of HK$406 million from investment of the Corporation's retained cash.

Operating costs of the Corporation (before depreciation, amortisation and impairment) plus interest and finance expenses amounted to HK$182 million for 2023, of which HK$17 million were interest charges on the Corporation's debt portfolio. Other major expenditure items include HK$7 million of direct staff costs and HK$27 million for outsourced support services provided by MTRCL and others.

The Corporation's debt portfolio now only consists of one fixed-rate note. The Corporation has sufficient cash to fully repay the note without the need for refinancing. The Corporation has no exposure to financial risks associated with interest rate movements.

The Corporation's operating profit for the year (before depreciation, amortisation and impairment) amounted to HK$3,210 million, an increase of HK$2,727 million (565%) over 2022.

Non-cash depreciation and amortisation charges for 2023 amounted to HK$3,417 million, compared with HK$3,229 million in 2022. The accounting profit for the year was HK$257 million, as compared with the loss of HK$2,115 million recorded in 2022.

Under the West Rail Shareholding Agreement signed with the Government in February 2000, the Corporation is the majority shareholder of the West Rail Property Development Limited and its subsidiaries. These companies, which employ MTRCL as their project management agent, are responsible for developing 11 residential and commercial sites along the West Rail Line. Development works continued in full swing in Yuen Long and Kam Sheung Road in 2023, with flats offered for sale in phases.

The Corporation is recovering from the impact of the COVID-19 pandemic with much improved financial results in 2023 as compared to the previous years. It will strive for even better performance in the days ahead. I would like to express my sincere gratitude to Members of the Managing Board for their visionary leadership in guiding Management through the difficult time of the pandemic and achieving the swift recovery in 2023.

LT Ma, SBS
BSc(Eng), MSc(Eng), CEng, FHKIE, FCIWEM, FHKIHT, MICE, MIStructE
Chief Officer
9 May 2024