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Following on the successful commissioning of the East Rail Line (“the EAL”) cross-harbour extension in collaboration with the Hong Kong Special Administrative Region Government (“the Government”) and the MTR Corporation Limited (“MTRCL”), the Corporation continued to provide support to these two business partners in the planned railway infrastructure serving the Northern Metropolis, namely the proposed Kwu Tung Station of the EAL; and the proposed Hung Shui Kiu Station of the Tuen Ma Line. The Corporation is working closely with the Government for facilitating access for MTRCL into land vested in the Corporation for the construction of the proposed railway stations serving the Northern Metropolis upon authorisation by the Government.

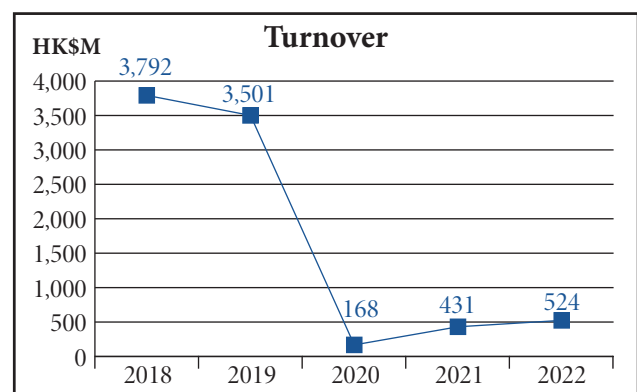
The Northern Metropolis will be the foothold for Hong Kong’s strategic development as well as the new growth engine for Hong Kong, radiating beyond its geographical boundary for creating synergy with the Guangdong Province, the Shenzhen Municipality and the Greater Bay Area. Timely provision of well-planned transport infrastructure, in particular railway infrastructure, connecting the Northern Metropolis to Central Kowloon and the Hong Kong Island, with links across the boundary into the extensive railway networks in the Mainland will be of paramount importance.

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.

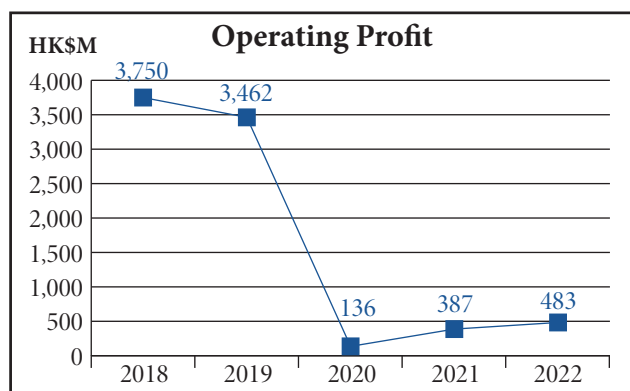
Currently, the Corporation is not involved in the construction of any new railway project or operation of railway network and has no major capital cost, operation cost or railway asset replacement expenditure. With its business focus as a railway asset holder after the Rail Merger in 2007, the Corporation enjoyed a relatively steady stream of income under the SCA and the SSCAs with MTRCL. The Corporation recorded accounting profits in both 2018 and 2019. Regrettably this trend has been reversed since 2020 as a result of the COVID-19 pandemic. Nonetheless, in the long run, the income of the Corporation should progressively improve with the recovery of domestic and cross-boundary patronage, expansion of the railway network and enhancement of railway services.

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 2022, the Corporation continued to fully comply with all relevant laws and regulations.

The Corporation aims to achieve accounting profitability in the long term. 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.



Chief Officer's Statement and Business Review

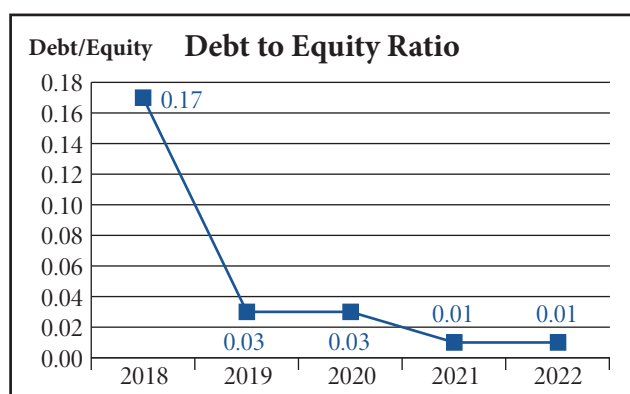


Note 1: Operating Profit is before depreciation, amortisation and impairment.

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

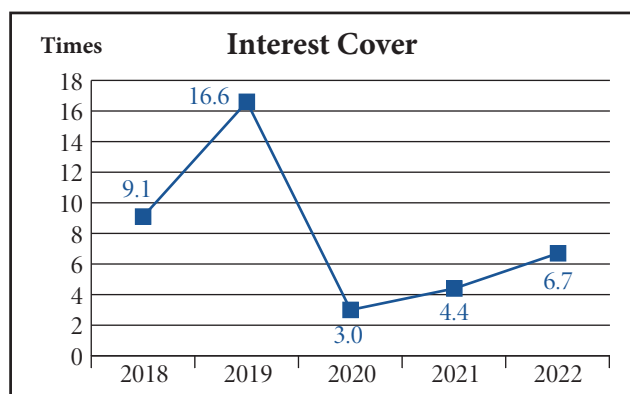
Note 3: Interest Cover = $\frac{\text{Operating profit before depreciation, amortisation and impairment} + \text{Interest and finance income} + \text{Share of profit of associate}}{\text{Interest and finance expenses}}$

See Note 1



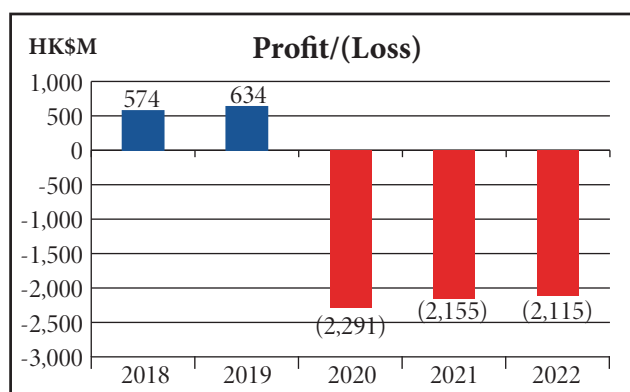
The Corporation's revenue mainly comes from the annual payments under the SCA and SSCAs, comprising Fixed and Variable Annual Payments. The Variable Annual Payment for 2022 increased by about 24% as compared with 2021, from HK\$260 million to HK\$323 million, which was mainly attributed to the increase in patronage in 2022.

See Note 2



The Corporation also recognised rental income of HK\$21 million from leasing the 7th to 10th floors of Citylink Plaza, dividends of HK\$104 million arising from the Corporation's 22.1% shareholding in Octopus Holdings Limited and interest income of HK\$178 million from investment of the Corporation's retained cash.

See Note 3



Operating costs of the Corporation (before depreciation, amortisation and impairment) plus interest and finance expenses amounted to HK\$161 million for 2022, of which HK\$18 million were interest charges on the Corporation's debt portfolio. Other major expenditure items include HK\$10 million of direct staff costs and HK\$28 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\$483 million, an increase of HK\$96 million (25%) over 2021.

Non-cash depreciation and amortisation charges for 2022 amounted to HK\$3,229 million, compared with HK\$2,976 million in 2021. The accounting loss for the year was HK\$2,115 million, representing a decrease of some HK\$40 million, as compared with the loss of HK\$2,155 million recorded in 2021.

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, with flats offered for sale in 2022.

The land or interests or other rights in respect of the land and the movable assets of the EAL cross-harbour extension were vested in and assigned to the Corporation respectively in May 2022. The EAL cross-harbour extension commenced operation on 15 May 2022. By then, the whole Shatin to Central Link ("the SCL") project has been fully commissioned and the Corporation has entered a new SSCA for the SCL with MTRCL.

The Corporation continued to face the impact of COVID-19 pandemic in 2022. Yet the Corporation saw the smooth commissioning of the EAL cross-harbour extension in the year expanding the Corporation's railway network across the Victoria Harbour. It has enhanced the efficiency and expanded the catchment of the Corporation's railway network, offering another convenient choice for the community for crossing the harbour. I would like to express my sincere thanks to Members of the Managing Board for their leadership, guidance and support to Management for meeting the challenges and accomplishing the achievements in 2022.

LT Ma, SBS

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FHKIHT, MICE, MISTructE
Chief Officer
28 March 2023