CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

The year 2019 was a special one for the Company, as it marked the 40th year of MTR service to the people of Hong Kong. However, it was also the most challenging year in our history, particularly for our Hong Kong railway operations and projects. Despite the unprecedented social challenges and difficult macro-economic environment, we maintained our commitment to excellence and continued to keep Hong Kong moving.

When I began my duties as CEO, I set three main priorities: to restore public confidence in MTR, to maintain a safe, reliable and value-for-money service for our customers, and to continue ensuring our complex businesses are managed efficiently and effectively.

To maintain our core as well as to embrace the future challenges ahead, we are undergoing a corporate strategy review on different strategic areas to get ourselves better prepared for the future challenges and opportunities. We will sharpen certain areas of strategic focus while continuously enhancing our MTR's core businesses in Hong Kong – our bedrock of long-term success. With our good track record on railway operations performance, we will continue to expand our Mainland of China and international businesses and explore new business engines by leveraging on innovation and technological levers which will add fuel to our growth, and all the while paying attention to sustainability, Environmental, Social and Governance ("ESG") as well as inclusion and diversity to strengthen our commitment and enhance the values we bring to the communities that we serve.

During the latter half of 2019, our businesses were adversely affected by the public order events that erupted across Hong Kong. Nevertheless, we at MTR persevered during this period and provided passenger services whenever possible, despite the damages and disruption inflicted on our network. I am deeply moved by the efforts and professionalism of our colleagues, who worked tirelessly to keep Hong Kong moving, often in perilous circumstances.

The recent outbreak of COVID-19 has been impacting Hong Kong and many aspects of our operations. To ensure the health and safety of our customers and staff, extensive measures have been implemented including the intensified cleaning of our stations, trains, managed properties and shopping malls, provision of protective equipment to our frontline staff and special work arrangements for office staff. Additionally, all our cross-boundary services, including the Cross-boundary Service to Lo Wu and Lok Ma Chau, High Speed Rail ("HSR") and Intercity service, were suspended temporarily as requested by Government.

Although this health crisis was still ongoing as we are writing this, all of the senior management of MTR would like to extend their heartfelt appreciation to our staff, whose professionalism and dedication during this difficult time are greatly appreciated.

Other issues of great concern to us during the year were the train derailment near Hung Hom Station in September and the collision of two non-passenger trains near Central Station during a non-service hours test of a new signalling system in March. Investigation panels comprising experts from Hong Kong and overseas were set up to determine the causes of these incidents. We consider these incidents to be extremely serious and have taken actions to prevent the occurrence of those of a similar nature.

In our property development business, we awarded two new projects during the year, namely LOHAS Park Package 11 and Wong Chuk Hang Station Package 4. In February 2020, LOHAS Park Package 12 was also awarded.

With regard to our new railway projects, we continued to make good progress on the Shatin to Central Link. In this connection, the Tuen Ma Line Phase 1 opened successfully on 14 February 2020.

We also welcomed the intention of the Government, as announced in the Chief Executive's 2019 Policy Address, to commence detailed planning and design for three new lines: the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link (and Kwu Tung Station). We look forward to working together with Government on bringing all three of these new railway projects to fruition.

Highlights of our Mainland of China and International Businesses during the year included the commencement of service on the Sydney Metro North West Line, the initial section of Hangzhou Metro Line 5, as well as the Macao Light Rapid Transit ("LRT") Taipa Line. TfL Rail in London, the future Elizabeth line, also commenced service between Paddington and Reading.

In the Mainland of China, our associate was awarded the Beijing Metro Line 17 ("BJL17") Operations and Maintenance ("O&M") concession. In Australia, the existing Northwest Rapid Transit ("NRT") consortium, of which we are a member, concluded the Public Private Partnership ("PPP") contract with Sydney Metro, covering the project works and railway operations of the City and Southwest Line. The future City and Southwest Line will operate as a single line with the current North West Line upon its target opening in 2024.

Looking at the numbers, profit attributable to equity shareholders from recurrent businesses decreased by 44.8% to HK$4,980 million. Property development profit for the year increased by 148.8% to HK$5,580 million. As a result, profit attributable to shareholders from underlying businesses was 6.2% lower at HK$10,560 million. Return on average equity attributable to shareholders arising from underlying businesses was 5.8% in 2019, compared with 6.5% in 2018. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company decreased by 25.5% to HK$11,932 million, representing earnings per share after revaluation of HK$1.94.

Excluding the HK$2 billion provision relating to the Shatin to Central Link project, a HK$436 million provision relating to the South Western Railway franchise and the adverse impact of HK$2.3 billion brought about by the public order events in Hong Kong, recurrent business profit, underlying business profit and net profit attributable to shareholders of the Company would have increased by 7.7% to HK$9,712 million, 35.8% to HK$15,292 million and 4.1% to HK$16,664 million respectively in 2019. Return on average equity attributable to shareholders arising from underlying businesses would have been 8.2% in 2019.

Your Board has proposed a final ordinary dividend of HK$0.98 per share, which together with the interim dividend of HK$0.25 per share, brings the full year dividend to HK$1.23 per share, representing an increase of 2.5% over last year.

HONG KONG BUSINESSES

MTR's businesses in Hong Kong are based on our proven "Rail plus Property" business model, under which we are engaged in the provision of services on our rail network as well as station commercial activities, property rental and property developments over and adjacent to stations and depots. The "Rail plus Property" business model not only bridges the funding gap when building new rail lines but also promotes transport-oriented city development and integrated communities along the railway lines.

Effect of the Public Order Events on our Hong Kong Businesses

As mentioned previously, our businesses in Hong Kong, including our transport operations, station commercial and property rental businesses, were adversely affected by the public order events in Hong Kong. For Hong Kong transport operations, our weekday patronage fell to 5.61 million, a drop of 4.5% from 2018. Total patronage recorded 2.5% growth in the first half of 2019, but a 14.8% decrease in the second half. Expenditures for hiring additional staff during this period and carrying out extensive repairs and replacements also had an adverse effect on our financial and operational results. Similarly, the performance of our station commercial and property rental businesses was affected as a result of early closures during the public order events and the concessions granted to some tenants in our stations and shopping malls.

As a result of the vandalism, many of our railway stations, Light Rail stops and other railway facilities were damaged, and many of our stations were closed early or had their service hours curtailed. Indeed, on 5 October we were forced to take the unprecedented move of shutting down the services of the entire network for the first time in our 40 years of service. The primary reason for these station closures was for the safety of our passengers and staff.

In the process of rebuilding MTR, we are reviewing our approach to station design to include from a security perspective, such as replacing broken glass panels with metal ones as an interim solution, and exploring enhancement measures in our future railway station design.

Transport Operations

HK$ million	Year ended 31 December 2019	2018	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**19,938**	19,490	2.3
EBITDA	**5,909**	8,171	(27.7)
EBIT	**(591)**	1,985	n/m
EBITDA Margin (in %)	**29.6%**	41.9%	(12.3)% pts.
EBIT Margin (in %)	**(3.0)%**	10.2%	(13.2)% pts.

The revenue of our Hong Kong transport operations increased by 2.3% to HK$19,938 million in 2019, mainly due to the full year impact of the opening of HSR in September 2018, which more than offset the adverse impact brought about by the public order events. Loss before interest, finance charges and taxation and after the variable annual payment was HK$591 million, mainly due to a reduction in total patronage and additional operating, repair and maintenance costs incurred as a result of the impact of the public order events in Hong Kong.

Patronage and Revenue

	Patronage in million		Revenue HK$ million	
	2019	Inc./(Dec.) %	**2019**	Inc./(Dec.) %
Hong Kong Transport Operations				
Domestic Service	**1,568.2**	(6.1)	**12,714**	(3.9)
Cross-boundary Service	**104.2**	(11.3)	**3,164**	(8.9)
HSR	**16.9**	219.2	**2,098**	249.7
Airport Express	**15.8**	(11.0)	**1,011**	(12.5)
Light Rail and Bus	**207.3**	(10.0)	**677**	(6.4)
Intercity	**1.9**	(48.2)	**175**	(18.2)
	1,914.3	(6.4)	**19,839**	2.3
Others			**99**	6.5
Total			**19,938**	2.3

The public order events in Hong Kong during the latter half of 2019, together with a weakening economy and a decrease in tourism arrivals, resulted in a 6.1% decline in total patronage of our Domestic Service to 1,568.2 million from 1,670.0 million the year before. On our Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage fell by 11.3% to 104.2 million mainly owing to the substantial decrease in Mainland visitors. Similarly, patronage of the Airport Express recorded a 11.0% drop in customers, due to the decline in tourist arrivals during the year.

Accordingly, total patronage of all our rail and bus passenger services in 2019 declined by 6.4% from that in 2018 to 1,914.3 million, while average weekday patronage dropped by 4.5% to 5.61 million from 5.88 million the year before.

Market Share

The Company's overall market share of the franchised public transport market in Hong Kong in 2019 was 47.4%, compared with 49.0% in 2018. This decline was mainly due to the decrease in patronage for all rail services as a result of the public order events. Of this, the share of cross-harbour traffic was 67.5%, compared with 69.1% in 2018. Our share of the cross-boundary business for 2019, including HSR and Cross-boundary Service, fell from 52.1% to 51.3%. Our market share to and from the airport went down from 22.0% to 20.5%.

Fare Adjustment, Promotions and Concessions

The overall adjustment rate of MTR fares for 2019/2020, in accordance with the Fare Adjustment Mechanism ("FAM"), was +3.3%. To commemorate our 40^{th} anniversary of service, we offered a 3.3% rebate for every Octopus trip effective from 30 June 2019 until 4 April 2020, and we extended the offer until the end of June 2020 in view of the recent outbreak of COVID-19. Under the scheme, all Octopus users can enjoy a 3.3% fare discount on every paid journey they take on the MTR, Light Rail and MTR Bus, which translates into no actual MTR fare increase for every passenger travelling with Octopus. The existing prices of the MTR City Saver, Monthly Pass Extras and Tuen Mun – Nam Cheong Day Pass will remain unchanged till end of June 2020 as applicable to benefit frequent users of our services.

The overall fare savings to customers under the new promotion package will be over HK$900 million in 2019/2020 as compared with over HK$500 million in the previous period. Together with over HK$2.6 billion in on-going fare concessions and interchange discounts, the Company will be providing customers with over HK$3.5 billion in fare concessions in 2019/2020.

In view of the outbreak of COVID-19, the Company has also decided to ensure, through fare rebates or other arrangements, that there will be no actual adjustment to MTR fares for the remainder of 2020 despite the fare adjustment rate for 2020/2021 under the FAM that will only be derived after the Census and Statistics Department announces the year-on-year percentage change in the Nominal Wage Index (Transportation Section) for December 2019 and other relevant figures later in the first quarter of 2020. Detailed arrangements will be announced by the end of March 2020 when the statistics are published. After this plan is implemented, Octopus fares would have stayed the same from January 2019 to the end of 2020.

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network remained at 99.9%, excluding the effects of the public and external events. This exceeded both the targets in our Operating Agreement and our own more demanding Customer Service Pledges. Train service delivery is a measure of the actual train trips run against the train trips scheduled to be run by the Company, and passenger journeys on-time is a measure of all passenger journeys that are completed within five minutes of their scheduled journey times.

In 2019, more than 2.07 million train trips were made on our heavy rail network and more than 0.96 million trips on our light rail network. There were 10 delays on the heavy rail network and no delays on the light rail network lasting 31 minutes or more caused by factors within our control, a decrease of 16.7% from the year before.

One of the incidents impacting our service performance was the train derailment that occurred on East Rail Line near Hung Hom Station on 17 September. Immediately after the incident, we suspended train service on the East Rail Line between Hung Hom and Mong Kok East stations and worked through the night to restore service the next day. We set up an investigation panel comprising MTR personnel as well as experts from Hong Kong and overseas, and the results of its investigation were made public on 3 March 2020. It was concluded that the incident was caused by dynamic track gauge widening at a turnout near Hung Hom Station. The Company has accepted the recommendations made by the panel and is taking actions to prevent the occurrence of those of a similar nature.

Prior to this incident, two non-passenger trains collided on the Tsuen Wan Line in March near Central Station during a test of a new signalling system after service hours. An investigation panel comprising senior MTR personnel as well as local and overseas experts from outside the Company was subsequently set up, and its findings were made public in July 2019. The detailed investigation concluded that the incident was caused by software implementation errors made by the contractor of the new signalling system, and a number of improvement measures have been recommended for the contractor. We have been overseeing the contractor in implementing the improvement measures and will exercise extra vigilance and strengthen monitoring of the contractor's deliveries.

Enhancing the Customer Experience

More Frequent Services

To help make our customers' journeys more convenient, we implemented new rounds of MTR train service enhancements in April and July 2019. These included an extra 101 train trips per week on the Island Line, Tsuen Wan Line, Kwun Tong Line and East Rail Line.

In order to increase the frequency of our services to deal with peak hour demand, we are in the process of upgrading our signalling system. The replacement of the signalling systems for the Tsuen Wan, Island, Kwun Tong, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, were all underway during the year. After the train collision incident during a non-service hours test for the new signalling system in March 2019, all train tests relating to the new signalling systems were immediately suspended. As safety is always our top priority, we will only resume train testing after obtaining the consent of Government.

MTR will continue to address the challenge of peak hour demand, although this is a situation that will only be partly alleviated on the existing cross-harbour section of Tsuen Wan Line after the completion of the new cross-harbour rail line of the Shatin to Central Link.

Greater Comfort for Passengers

To provide a more comfortable travel experience for our passengers, we have ordered new trains and light rail vehicles. Seven of the 93 new trains and two of 40 new light rail vehicles acquired were received in Hong Kong and under testing and commissioning during the year. Our target is to start deploying the new light rail vehicles for passenger service from 2020 onwards.

To provide a more comfortable station environment for passengers, we have been replacing about half of the air conditioning systems in our network. Two out of five chiller replacement phases were completed up to 2019, with 61 chillers replaced. Target completion for all other phases will be in 2022.

Enhancing Station Facilities

We have also been upgrading our station facilities as part of our effort to enhance the customer experience. These include the addition of babycare rooms, public toilets, water dispensers, more wide gates, seats and mobile charging spots.

To meet the special needs of an aging population, we embarked on new initiatives at designated stations, focusing on accessibility and mobility, as well as the provision of toilets and information. Enhancements include the addition of middle handrails and additional seats in longer adits, large signage, magnifiers and alphabet cards at Customer Service Centres to help customers in need to identify their exits.

Enhancing Passenger Journeys through Technology

We have been making progress adopting new digital technology to enhance the customer experience on board our trains and in our stations. This is part of our ongoing effort to improve safety, connectivity and convenience for passengers, which is in line with our "smart city, smart mobility" vision for MTR.

Across our various mobile applications, we have been making use of Artificial Intelligence (AI) and Internet of Things (IoT) technologies to offer a wide range of personalised services, such as a new Alighting Reminder, Estimated Waiting Time Indicator at Admiralty Station and MTR Bus Real-Time Schedules. We have also upgraded our Trip Planner to provide point-to-point transport advice, such as connecting public transport information, and revamped the user interface of the Airport Express function on the MTR Mobile app. The MTR Mobile app had about 1.4 million active users per month in 2019.

Internally, we have been applying technology to improve internal processes and maintenance. These include chatbots and Robotic Process Automation (RPA) tools that help to reduce repetitive office tasks. Additionally, we have been using big data and AI to optimise planning and engineering works scheduling, as well as video and image analytics to monitor the health of our railway assets. We have also introduced Augmented Reality and Virtual Reality in our training curriculum to simulate actual working conditions with a totally immersive 3D environment.

Another example of how we are exploring digital technology to enhance the customer experience is Mobility-as-a-Service ("MaaS"). Now being developed or in use in Europe, this platform helps users to plan multiple trips on a variety of transport modes with just one payment. We will continue to explore opportunities with other mobility operators with the aim of developing a MaaS solution for our customers.

Station Commercial Businesses

	Year ended 31 December		
HK$ million	**2019**	2018	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station retail rental revenue	**4,800**	4,424	8.5
Advertising revenue	**1,130**	1,212	(6.8)
Telecommunication income	**743**	696	6.8
Other station commercial income	**126**	126	–
Total Revenue	**6,799**	6,458	5.3
EBITDA	**6,119**	5,891	3.9
EBIT	**5,122**	5,025	1.9
EBITDA Margin (in %)	**90.0%**	91.2%	(1.2)% pts.
EBIT Margin (in %)	**75.3%**	77.8%	(2.5)% pts.

Total revenue from our Hong Kong station commercial businesses in 2019 increased 5.3% to HK$6,799 million as compared with HK$6,458 million the year before, mainly attributable to the incremental contribution from HSR in station retail rental revenue.

Station retail rental revenue rose by 8.5% to HK$4,800 million, mainly due to the full-year effect of new Duty Free Shops at Hong Kong West Kowloon Station, the rate increases derived from refinements to the trade mix and renewals by tenants (the majority of which were concluded before mid-2019). During the year, we continued with our station renovation projects and re-layout of shops to create additional retail space in our stations. We also launched a new retail business model of unmanned shop incorporating innovative use of technology. Rental reversion and the average occupancy rate in 2019 in our station kiosks were 3.7% and over 99% respectively.

Advertising revenue decreased by 6.8% to HK$1,130 million in 2019 as both the tourism and retail markets contracted in the second half of the year. To offset the slump in advertising sales, we launched a series of aggressive and flexible sales packages as well as sales incentive programmes.

Revenue from telecommunications in 2019 rose by 6.8% to HK$743 million as a result of the incremental revenue from new service contracts and capacity enhancement projects. During the year, we worked with telecom operators to explore the provision of advanced 5G wireless technology in our stations that will enhance mobile communications on our railway network.

Property Businesses

Property Rental and Management

HK$ million	Year ended 31 December 2019	Year ended 31 December 2018	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,833**	4,748	1.8
Revenue from Property Management	**304**	307	(1.0)
Total Revenue	**5,137**	5,055	1.6
EBITDA	**4,286**	4,242	1.0
EBIT	**4,264**	4,225	0.9
EBITDA Margin (in %)	**83.4%**	83.9%	(0.5)% pt.
EBIT Margin (in %)	**83.0%**	83.6%	(0.6)% pt.

Property rental revenue increased by 1.8% to HK$4,833 million in 2019, mainly due to rental growth in our shopping malls, partly offset by the rent concession granted to some tenants whose businesses had been adversely affected by the public order events. Rental reversion in 2019 in our shopping mall portfolio in Hong Kong recorded a 3.1% growth (or 7% including a special rental case). As at 31 December 2019, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were close to 100% let.

In the latter half of 2019, we closely monitored the public order events and implemented a number of security measures in our malls. In recognition of the long-term relationships we have developed with our tenants, and to offer them support during difficult times, we granted rental concessions on a case-by-case basis, with priority given to small to medium sized tenants. In the year ahead, we will continue to build on our marketing and promotional efforts to maintain the competitiveness of our shopping malls.

Our property management revenue in Hong Kong decreased slightly by 1.0% to HK$304 million in 2019. As at 31 December 2019, MTR managed more than 104,000 residential units and more than 772,000 square metres of office and commercial space in Hong Kong.

Property Development

Hong Kong property development profit in 2019 was HK$5,531 million, which was mainly derived from the share of surplus proceeds from MALIBU and sharing in kind from The LOHAS, as well as sales of inventory units.

In 2019, we made good progress in our pre-sales activities for the property development projects we had launched in the market, particularly in the first half of the year. MONTARA and GRAND MONTARA (LOHAS Park Package 7) were fully sold, while pre-sales of the remaining units in Wings at Sea and Wings at Sea II (LOHAS Park Package 4), MALIBU (LOHAS Park Package 5) and LP6 (LOHAS Park Package 6) continued, with about 97% of the units sold. Pre-sales of MARINI and GRAND MARINI (LOHAS Park Package 9) were launched in the third quarter of 2019, with about 83% and about 49% of the units sold respectively.

For the West Rail property development projects where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), pre-sales of Cullinan West III (Nam Cheong Station) were launched in September 2019, and pre-sales continued for Sol City (Long Ping Station (South)).

In our property tendering activities, LOHAS Park Package 11 was awarded to the consortium formed by Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited in April 2019. Wong Chuk Hang Station Package 4 was awarded to the consortium formed by Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited in October 2019. LOHAS Park Package 12 was awarded to a subsidiary of Wheelock and Company Limited in February 2020.

GROWING OUR HONG KONG BUSINESSES

Shatin to Central Link

By the end of 2019, we had completed 99.8% of the Tai Wai to Hung Hom Section and 82.3% of the Hung Hom to Admiralty Section of the Shatin to Central Link project. When the entire 17-km Shatin to Central Link is completed, connectivity will be greatly improved and travel time to and from the New Territories, Kowloon and Hong Kong Island notably reduced.

On 11 February 2020, the Company entered into relevant agreements with Government and KCRC to supplement the current agreements to enable the Company to operate the Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020. The first phase, which opened on 14 February 2020, enables passengers on the Ma On Shan Line to travel directly to Kai Tak Station in East Kowloon via Hin Keng and Diamond Hill stations. Meanwhile, the expanded Diamond Hill Station has become a new interchange between the Tuen Ma Line and Kwun Tong Line, allowing passengers from the New Territories North and East districts to travel onward to East Kowloon and Hong Kong Island East more conveniently. The full line opening of the Tuen Ma Line is anticipated to be in 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), the targeted completion in the first quarter of 2022 is still facing challenges and there are continuing efforts being made with the aim of meeting the programme.

As the existing East Rail Line will connect with the future Hung Hom to Admiralty section, its signalling system must be upgraded for compatibility with the Shatin to Central Link project. Damage to facilities on the East Rail Line as a result of the recent public order events has caused delays to the originally scheduled testing of the new signalling system during non-service hours.

With regard to the project quality issues at the Hung Hom Station extension, the Government published a redacted Interim Report of the Commission of Inquiry ("COI") on 26 March 2019. The Final Report of the COI is expected to be submitted to Government by 31 March 2020.

In July 2019, the Company submitted to Government two separate final reports in respect of construction incidents relating to the Hung Hom Station extension, the Hung Hom North Approach Tunnel and South Approach Tunnel and the Hung Hom Stabling Sidings.

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete which was submitted to Government for review on 11 February 2020. The Company's submission included an additional amount of project management cost for the Company. Government responded with requests for further information and clarification and has objected to the inclusion of any additional amount of project management cost. As stated in the Company's announcement on 28 February 2020, the Company notes that Government has issued its paper for the first stage of the Legislative Council process for the approval of additional funding for the Shatin to Central Link project and that Government's paper does not include any provision by Government for any additional amount of project management cost for the Company. The Company is currently addressing these matters with Government. Once these issues are resolved the Company will issue an announcement regarding this matter. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained as far as possible.

Other New Railway Projects

In addition to the three new projects noted in the Chief Executive's 2019 Policy Address, we continued to work closely with Government on a number of other new projects. These included the East Kowloon Line and North Island Line, for which we provided the technical and financial information as requested.

For the remaining two projects to be implemented under the Railway Development Strategy 2014 ("RDS 2014"), namely Hung Shui Kiu Station and South Island Line (West), we were invited in 2019 to submit project proposals and are currently undertaking technical studies in preparation for submission of the proposals in 2020.

We also look forward to participating in other strategic studies on railways in 2020.

Expanding the Property Portfolio

Investment Properties

During the year, we geared up for the opening of our new mall at LOHAS Park in the second half of 2020, which has been officially named The LOHAS, with pre-leasing activities currently underway.

We also made good progress on two other shopping malls during the year, with the completion of foundation works for the shopping mall at Tai Wai Station and the commencement of foundation works for the shopping mall at Wong Chuk Hang Station. Both projects are on course for their target completion dates in 2023.

When all three of these new malls open for business, they will add around 49% to the total attributable GFA in our existing retail portfolio as of 31 December 2019.

The Company announced on 26 February 2020 that the Company had signed agreements with New World Development Company Limited and Chow Tai Fook Enterprises Limited to acquire their interests in Telford Plaza II shopping centre in Kowloon Bay and PopCorn 2 shopping centre in Tseung Kwan O for a total consideration of HK$3 billion. Upon completion of the transactions on or before 31 March 2020, the Company will hold the entire economic interest of these two shopping centres, which will help to provide a sustainable funding solution to the Company's railway business.

Residential Property Development

Over the next six years or so, we will deliver about 22,000 residential units from 16 property projects to the market in Hong Kong. These include the recently awarded LOHAS Park Package 11, Package 12 and Wong Chuk Hang Station Package 4, offering around 4,650 residential units and around 237,448 square metres GFA in total.

The successful tendering of LOHAS Park Package 11 and 12 means that the vast majority of the packages at LOHAS Park have now been awarded and are in various stages of development.

For the Siu Ho Wan Depot site, which will be developed into a community comprising both public and private housing totalling around 14,000 units, community facilities and a 30,000 square metre shopping mall, we are currently in negotiation with Government and are exploring how we can best advance this project. There is still no assurance at this early stage whether or not it will be commercially viable.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

	Mainland of China and International Businesses								
	Mainland of China and Macao Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
Year ended 31 December HK$ million	**2019**	2018	Inc./(Dec.) %	**2019**	2018	Inc./(Dec.) %	**2019**	2018	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**1,881**	1,458	29.0	**19,204**	19,419	(1.1)	**21,085**	20,877	1.0
EBITDA	**529**	388	36.3	**796**	488	63.1	**1,325**	876	51.3
EBIT	**517**	376	37.5	**572**	346	65.3	**1,089**	722	50.8
EBIT (Net of Non-controlling Interests)	**517**	376	37.5	**412**	198	108.1	**929**	574	61.8
EBITDA Margin (in %)	**28.1%**	26.6%	1.5% pts	**4.1%**	2.5%	1.6% pts	**6.3%**	4.2%	2.1% pts
EBIT Margin (in %)	**27.5%**	25.8%	1.7% pts	**3.0%**	1.8%	1.2% pts	**5.2%**	3.5%	1.7% pts
Recurrent Business Profit	**472**	**338**	**39.6**	**200**	**48**	**316.7**	**672**	**386**	**74.1**
Associates and Joint Venture									
Share of EBIT	**1,005**	989	1.6	**(403)**	(26)	(1,450.0)	**602**	963	(37.5)
Share of Profit/(Loss)	**457**	**470**	**(2.8)**	**(403)**	**(33)**	**(1,121.2)**	**54**	**437**	**(87.6)**
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**1,522**	1,365	11.5	**9**	172	(94.8)	**1,531**	1,537	(0.4)
Profit attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses)							**726**	**823**	**(11.8)**
– Business Development Expenses							**(201)**	(263)	(23.6)
– Arising from Recurrent Businesses (after Business Development Expenses)							**525**	**560**	**(6.3)**
– Arising from Mainland of China Property Development							**49**	90	(45.6)
– Total							**574**	**650**	**(11.7)**
Number of passengers carried by our railway subsidiaries, associates and joint venture outside of Hong Kong (in millions)							**2,276**	2,186	4.1

Outside Hong Kong, we have used our expertise and experience to build a growing portfolio of railway-related businesses in the Mainland of China, Macao, Europe and Australia. Our railway businesses outside Hong Kong carried an average of about 7.2 million passengers per weekday in 2019.

In the Mainland of China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries increased by 39.6% to HK$472 million, mainly due to incremental contributions from Macao LRT Taipa Line O&M and project management services.

In our International businesses, recurrent business profit from our railway subsidiaries increased by 316.7% to HK$200 million, mainly due to the recognition of profit from Sydney Metro City & Southwest's Early Works Deed and the reduced loss of MTR Pendeltågen AB.

Our share of profit from our associates and joint venture decreased by 87.6% to HK$54 million, mainly due to the onerous contract provision made for First MTR South Western Trains Limited.

Excluding Mainland of China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint venture outside of Hong Kong, contributed net after-tax profits of HK$525 million in 2019 on an attributable basis, a decrease of 6.3% compared with 2018, and represented 10.5% of total 2019 recurrent profits.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our associate operates Beijing Metro Line 4 ("BJL4"), Daxing Line, the first three phases of Beijing Metro Line 14 ("BJL14") and the Northern Section of Beijing Metro Line 16 ("BJL16"). Average on-time performance of these four lines in 2019 was 99.9%.

The combined ridership of BJL4 and the Daxing Line was about 455 million passenger trips in 2019, while average weekday patronage was more than 1.35 million, similar to 2018.

The first three phases of BJL14 recorded a combined passenger trips of about 251 million and average weekday patronage of over 788,000 in 2019, an increase of 6% over 2018.

Construction works for the remaining sections of BJL16 and BJL14 continued to make progress during the year. Both lines are targeted for full line operation after 2021.

Shenzhen

Shenzhen Metro Line 4 ("SZL4") recorded 3% patronage growth to 239 million, with average weekday patronage of 666,000 and on-time performance of 99.9%.

Although patronage on SZL4 continued to grow during the year, there has been no increase in fares since we began operating the line in 2010. Currently, the Shenzhen Municipal Government is in the planning process to implement a fare adjustment mechanism. If a suitable fare adjustment mechanism is not put in place in the near future, the long-term financial viability of this line will be impacted.

For SZL4 North Extension, discussions with the Shenzhen Municipal Government continued with regard to the operational and maintenance arrangements in preparation for its opening at the end of 2020.

Hangzhou

Patronage of Hangzhou Metro Line 1 ("HZL1") recorded a 9.6% growth in patronage to 296 million, with average weekday patronage of 822,000, and on-time train performance remaining at 99.9%.

The initial section of Hangzhou Metro Line 5 ("HZL5") commenced service in June 2019, with positive response received from our passengers. Total patronage since its opening was 16 million, with an average weekday patronage of 92,000. The latter section is targeted to start service in the first half of 2020.

Property Business in the Mainland of China

The Tiara residential development at Shenzhen Metro Longhua Line Depot Site Lot 1 has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). More than 98% of the residential units have been sold and handed over to buyers. TIA Mall held its official opening in August 2019, and the average occupancy rate was 74% during the period.

In Tianjin, a Sale and Purchase Agreement was signed in 2018 for the acquisition of a shopping centre to be developed on the Beiyunhe Station site. Based on the construction progress, project completion is expected to be delayed from 2022 to 2024 due to the additional works required for railway safety assurance during basement construction.

In the Guangdong-Hong Kong-Macao Greater Bay Area, we are providing Transit Oriented Development technical assistance relating to a mixed-use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province.

The Company also manages self-developed and other third-party properties in the Mainland of China, with a total managed area of 390,000 square metres as at 31 December 2019. The average occupancy rate of our shopping mall in Beijing, Ginza Mall, was 98% in 2019.

Macao Railway Businesses

In Macao, we are responsible for the operation and maintenance of the Macao LRT Taipa Line, the first rapid transit system in the city. Since commencing operation on 10 December, it has received a favourable response from the public and passengers. Service on the 9.3-km, 11-station LRT Taipa Line connects the Taipa Ferry Terminal to Ocean Station.

European Railway Businesses

United Kingdom

In London, our subsidiary operates the Crossrail operating concession under the TfL Rail brand. In 2019, the overall performance of TfL Rail was satisfactory and remained one of the most reliable rail services in the UK. In addition to the existing TfL Rail service between Liverpool Street and Shenfield in the east of London, and between Paddington and Heathrow Airport in the west, TfL Rail commenced service in December 2019 on the 57-km route running between Paddington and Reading. As the operator of the line, to be renamed the Elizabeth Line upon full line opening, we continue to support Transport for London on its phased opening.

Through our associate First MTR South Western Trains Ltd, we also operate the South Western Railway franchise, one of the UK's largest rail networks. In 2019, the financial performance of this franchise continued to suffer owing to a number of reasons, and we have made an announcement on the provision of GBP43 million representing our share of the maximum potential loss under the Franchise Agreement.

First MTR South Western Trains Ltd is in discussions with the Department for Transport regarding potential commercial and contractual remedies in respect of the uncertainties affecting the performance of the franchise, including infrastructure reliability, timetabling delays and industrial action. Although these discussions are constructive, they remain ongoing. The outcome, and therefore the impact on the associate's ability to continue operating the franchise, is uncertain at this stage.

Sweden

In Sweden, MTR is the largest rail operator by passenger volume with three key rail businesses: Stockholm Metro, MTR Express and the Stockholm commuter rail service ("Stockholms pendeltåg").

During the year, Stockholm Metro continued to register stable operation and satisfactory performance.

MTR Express, which was ranked the second most innovative company in Sweden on the Swedish Innovation Index, continued to increase patronage in 2019 with narrowed losses. New marketing initiatives have been implemented to stimulate ridership.

The operational and financial performance of Stockholms pendeltåg significantly improved in 2019 following the difficulties in 2018. However, MTR Pendeltågen AB, our wholly owned subsidiary operating Stockholms pendeltåg, will likely remain in a loss-making position for a year or so despite narrowed losses in 2019. During the year, MTR Tech AB bought out the other 50% shareholding in Emtrain AB, which maintains the rolling stock of Stockholms pendeltåg, bringing rolling stock maintenance for the Stockholms pendeltåg fully under our management.

Australia Railway Businesses

In Melbourne, the operational performance of the Melbourne metropolitan rail network was affected due to a variety of reasons, including network improvement works initiated by the city government. We have since made rectification plans and put in place the resources needed to bring service back to previous performance levels. Indeed, our good record of performance over the term of the previous franchise was one of the reasons for the renewal of our concession to November 2024, with an option to further extend for a maximum of three years.

Sydney Metro North West Line, Australia's first driverless railway, commenced service in May 2019 and achieved a high customer satisfaction score in its initial period of operation. Equipped with state-of-the-art rail service features such as fully automated (driverless) trains and platform screen doors, it has been commended by the Premier of the New South Wales State Government and well received by the public.

Growth Beyond Hong Kong

Outside Hong Kong, we are committed to pursuing rail franchise and rail-related property development opportunities.

In the Mainland of China, we were awarded the 49.7-km BJL17 O&M concession in December 2019. This is a 20-year concession (no later than 31 December 2045) commencing from the first phase opening of the line, which is targeted for the end of 2021. We will lease the rolling stock over the 20-year period, with lease payments to be paid in two instalments after the opening of each phase. During the year, we continued our efforts to identify development opportunities in Beijing, Hangzhou and, in particular, the Guangdong-Hong Kong-Macao Greater Bay Area.

A Letter of Intent (LoI) was signed on 14 January 2020 in which the Company was invited by Chengdu Rail Transit Group to joint-venture with them on station retail businesses. Both parties are looking forward to concluding the deal in joint-venture agreement(s) subject to a business case assessment that justifies our participation in this new line of business in the Mainland of China.

In the UK, we submitted a bid for the West Coast Partnership franchise but were unsuccessful.

In Stockholm, we submitted a bid for the O&M of Roslagsbanan, the commuter network connecting Stockholm and the municipalities north of the city. The result of the bid is expected in the second quarter of 2020.

In Australia, the NRT consortium, of which we are a member, reached an agreement with the New South Wales Government in November 2019 to conclude the contract for the extension to the existing NRT PPP with Sydney Metro. The NRT PPP contract package includes new metro trains and core rail systems as well as the operations and maintenance component for NRT to operate the combined Metro North West and City and Southwest lines until 2034. MTR will invest in the project and take the lead in the NRT PPP project works and railway operations and maintenance of both the City and Southwest Line and the Metro North West Line as a combined single line from 2024.

FINANCIAL REVIEW

A review of the Group's result and operations is featured in the preceding sections. This section discusses and analyses such results in greater level of details.

Profit and Loss

	Year ended 31 December		Inc./(Dec.)	
HK$ million	**2019**	2018	HK$ million	%
Total Revenue	**54,504**	**53,930**	574	1.1
Recurrent Business Profit				
EBIT				
Hong Kong Transport Operations	**(591)**	1,985	(2,576)	n/m
Hong Kong Station Commercial Businesses	**5,122**	5,025	97	1.9
Hong Kong Property Rental and Management Businesses	**4,264**	4,225	39	0.9
Mainland of China and International Railway, Property Rental and Management Subsidiaries	**1,089**	722	367	50.8
Others#	**(2,353)**	(404)	(1,949)	(482.4)
Share of Profit or Loss of Associates and Joint Venture	**288**	658	(370)	(56.2)
Profit before Interest, Finance Charges and Taxation	**7,819**	12,211	(4,392)	(36.0)
Interest and Finance Charges	**(939)**	(1,208)	(269)	(22.3)
Income Tax	**(1,740)**	(1,835)	(95)	(5.2)
Non-controlling Interests	**(160)**	(148)	12	8.1
Recurrent Business Profit	**4,980**	**9,020**	**(4,040)**	**(44.8)**
Non-recurrent Business Profit				
Property Development Profit (Post-tax)				
Hong Kong	**5,531**	2,153	3,378	156.9
Mainland of China	**49**	90	(41)	(45.6)
Non-recurrent Business Profit	**5,580**	**2,243**	**3,337**	**148.8**
Underlying Business Profit	**10,560**	**11,263**	**(703)**	**(6.2)**
Investment Property Revaluation	**1,372**	4,745	(3,373)	(71.1)
Net Profit Attributable to Shareholders of the Company	**11,932**	**16,008**	**(4,076)**	**(25.5)**
Results on Normalised Basis^				
Recurrent Business Profit	**9,712**	**9,020**	**692**	**7.7**
Property Development Profit	**5,580**	**2,243**	**3,337**	**148.8**
Underlying Business Profit	**15,292**	**11,263**	**4,029**	**35.8**
Investment Property Revaluation	**1,372**	4,745	(3,373)	(71.1)
Net Profit Attributable to Shareholders of the Company	**16,664**	**16,008**	**656**	**4.1**

n/m: not meaningful

Others represents "Other Businesses, and Project Study and Business Development Expenses".

^ *Results on normalised basis are estimates based on certain assumptions to represent financial performance if the adverse impact of the public order events in Hong Kong on the Group's Hong Kong businesses (HK$2.3 billion), and the provisions for the Hung Hom incidents of the SCL project in Hong Kong (HK$2 billion) and the South Western Railway franchise agreement in the United Kingdom (HK$0.4 billion) had been excluded.*

Total Revenue

Total revenue of the Group in 2019 was HK$54,504 million up slightly by 1.1% when compared with 2018, mainly due to the full year contribution from HSR and higher revenue contributions from our Mainland of China and international subsidiaries, but offset mostly by the reduction in fare revenue in our Hong Kong transport operations ("HKTO"), as well as the rental concessions granted to some tenants in our station kiosks and shopping malls because of the public order events in Hong Kong since June 2019.

Recurrent Business Profit

Recurrent business profit decreased by 44.8% to HK$4,980 million. If the adverse impact from the public order events in Hong Kong and the provisions made had been excluded, recurrent business profit would have increased by 7.7% to HK$9,712 million.

EBIT

HKTO recorded an EBIT loss of HK$591 million in 2019, compared with a profit of HK$1,985 million in 2018, mainly due to a reduction of 6.4% in total patronage and additional operating, repair and maintenance costs incurred as a result of the impact of the public order events in Hong Kong.

EBIT of the Hong Kong station commercial businesses increased by 1.9% to HK$5,122 million, mainly due to the full year rental income from the new Duty Free Shops at Hong Kong West Kowloon Station and rental income growth of station kiosks, partly offset by the drop in advertising revenue and the rental concessions granted to some station kiosk tenants who had been adversely affected by the public order events in Hong Kong.

EBIT of the Hong Kong property rental and management businesses increased marginally by 0.9% to HK$4,264 million, mainly due to the rental income growth of our shopping malls, partly offset by the rent concessions granted to some tenants who had also been adversely affected by the public order events in Hong Kong.

EBIT of the Mainland of China and international railway, property rental and management subsidiary businesses increased by 50.8% to HK$1,089 million, mainly as a result of the performance improvement of Stockholms pendeltåg and higher operating profits from Macao LRT Taipa Line project management and O&M services.

EBIT of others (mainly including project management services performed for Government, Ngong Ping 360 and consultancy businesses, net of project study and business development expenses) reported a loss of HK$2,353 million in 2019, compared with a loss of HK$404 million in 2018, mainly due to the provision of HK$2 billion made in 2019 for the Hung Hom incidents of the SCL project in Hong Kong.

Share of Profit or Loss of Associates and Joint Venture

Share of profit of associates and joint venture decreased by 56.2% to HK$288 million, mainly due to a provision of onerous contract made in 2019 in respect of the South Western Railway franchise agreement in the United Kingdom amounting to HK$436 million. If the provision had been excluded, the share of profit would have increased by HK$66 million, or 10.0%, which was mainly contributed by our associates in Australia and Hangzhou.

Non-recurrent Business Profit

Property development profit increased by 148.8% to HK$5,580 million, mainly derived from the surplus proceeds of MALIBU (LOHAS Park Package 5) and sharing in kind of The LOHAS, as well as sales of inventory units.

Net Profit Attributable to Shareholders of the Company

Revaluation of the Group's investment properties in Hong Kong and Mainland of China, which was performed by independent professional valuation firms, resulted in a revaluation gain of HK$1,372 million in 2019, down by 71.1% when compared with 2018. The decrease was mainly due to the economic downturn stemming from China-US trade tensions as well as the public order events in Hong Kong. Net profit attributable to shareholders of the Company was reduced by 25.5% when compared with 2018. Should the adverse impact of the public order events in Hong Kong and the provisions made be excluded, the net profit attributable to shareholders of the Company would have increased by 4.1% to HK$16,664 million.

Financial Position

HK$ million	As at 31 December 2019	As at 31 December 2018	Inc./(Dec.) HK$ million	%
Net Assets	**186,798**	180,619	6,179	3.4
Total Assets	**289,214**	274,687	14,527	5.3
Total Liabilities	**102,416**	94,068	8,348	8.9
Gross Debt	**39,456**	40,205	(749)	(1.9)
Net Debt-to-equity Ratio (in %)	**15.4%**	18.1%		(2.7)% pts

Net Assets

Our financial position remained strong. The Group's net assets increased by 3.4% from HK$180,619 million as at 31 December 2018 to HK$186,798 million as at 31 December 2019.

Total Assets

Total assets increased by 5.3% from HK$274,687 million to HK$289,214 million. This was mainly due to:

- increase in investment properties due to (i) receipt of a new shopping mall of LOHAS Park Package 7, and (ii) investment revaluation gain of existing portfolio;
- increase in property development receivables upon recognition of property development profit of MALIBU;
- increase in cash retained; and partly offset by
- decrease in property development in progress upon profit recognition of our property development.

Total Liabilities

Total liabilities increased by 8.9% from HK$94,068 million to HK$102,416 million. This was mainly due to:

- increase in amount received in respect of Hong Kong property development; and
- provision of HK$2.0 billion made in respect of the Hung Hom incidents of the SCL project in Hong Kong.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations, bank overdrafts and short-term loans) decreased by 1.9% to HK$39,456 million. Weighted average borrowing cost of the Group's interest-bearing borrowings remained at 2.8% p.a., the same as that in 2018.

Net Debt-to-equity Ratio

Net debt-to-equity ratio was 15.4% at 31 December 2019, a decrease of 2.7% points from 18.1% as at 31 December 2018, mainly driven by an increase in cash balances generated by operating activities, as well as cash receipts in respect of Hong Kong property development.

Cash Flow

HK$ million	2019	2018
Net Cash Generated from Operating Activities, Net of Fixed and Variable Annual Payments	**13,988**	8,267
Net Receipts from Property Development	**5,916**	3,720
Other Cash Outflow in Investing Activities	**(7,490)**	(7,956)
Net Repayment of Debts and Net Interest Payment	**(2,362)**	(2,390)
Dividends Paid to Shareholders of the Company	**(6,649)**	(1,281)
Increase in Cash, Bank Balances and Deposits#	**3,286**	**207**

Excluding effect of exchange rate change

Net Cash Generated from Operating Activities, Net of Fixed and Variable Annual Payments

Net cash generated from operating activities, net of fixed and variable annual payments for Hong Kong railway and related operations was HK$13,988 million, which was HK$5,721 million higher than that in 2018, mainly due to the payment of the land premium for the Wong Chuk Hang Station package to the Government amounting to HK$5,214 million in 2018 (which was not repeated in 2019).

Net Receipts from Property Development

Net receipts from property development were HK$5,916 million, comprising mainly cash receipts from LOHAS Park, Wu Kai Sha Station and Wong Chuk Hang packages, partly offset by the Company's contribution payment for the LOHAS Park package.

Other Cash Outflow from Investing Activities

Other cash outflow from investment activities was HK$7,490 million, which mainly included capital expenditure of HK$6,072 million (comprising HK$5,291 million for investing in additional assets for our Hong Kong existing railways and related operations, HK$308 million for Hong Kong investment properties, HK$292 million for Hong Kong railway extension projects and HK$181 million for the Mainland of China and overseas subsidiaries), and investments of HK$1,416 million in our associate and joint venture.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ESG is becoming increasingly important to our operations across MTR, not only in terms of our environmental and social performance but also with regard to our corporate governance. All are essential to the way we conduct our business and help us maintain our reputation as a responsible business that connects communities and betters the lives of our passengers, customers and staff.

We are looking into current trends on sustainability initiatives such as inclusive mobility, carbon-neutral transit and transport, congestion reduction and better access to multi-modal transit, as well as inclusion and diversity. Beyond this, we encourage every part of our business to be conscious of ESG and to set appropriate ESG targets.

Electrically powered mass transit railway is widely regarded as the most environmentally sustainable way to transport large numbers of people in cities. At MTR, we strive to be one of the most resource efficient and ecologically sustainable railways in the industry. We have set targets to reduce electricity consumed per passenger-km by 21% in our heavy rail network by 2020 compared with 2008 and to achieve a 12% reduction in energy use for our investment property portfolio by 2023, using 2013 as the baseline. In addition to lowering our energy consumption, we have implemented initiatives in our existing railway network and railway development plans that help us reduce our environmental impacts. We have also developed a Green Finance Framework to provide support to our green finance initiatives for increasing energy efficiency, using natural resources sustainably and adapting to climate change.

At the same time, we understand the importance of engaging our stakeholders in the communities where we operate. We prioritise safety at all levels in our Company and promote a Safety First culture among our staff, customers and contractors. Additionally, we have introduced community engagement activities that connect us with young people, children, the elderly and vulnerable social groups. We also aim to create a work environment that is engaging and supportive of our staff, whom we consider to be our most valuable asset.

Just as important is the need to ensure and maintain high corporate governance standards in order to align ourselves with the interests of our stakeholders. We have thus adopted best practices in corporate governance, with a well-defined governance structure, board diversity and mechanism for effective crisis management.

To keep our stakeholders informed about our sustainability performance, we have been publishing a sustainability report every year for the past two decades that outlines our ESG initiatives and the progress we have made, including our ESG targets. It is prepared in accordance with the reporting standards published by the Global Reporting Initiative: Core option and in compliance with the disclosure requirements of the ESG Reporting Guide of the Hong Kong Stock Exchange. Our sustainability report is available on a separate and standalone sustainability website.

Safety First

Safety, which is always our highest priority, is a key element of our ESG strategy. During the year, we launched a "Zero Harm" initiative to raise awareness of safety among our customers, staff and contractors. It equips staff with clear guidelines and sound training for instilling a preventive "Zero Harm" culture at MTR for the protection of our staff and customers.

This initiative augments our Corporate Strategic Safety Plan, which is reviewed and revised every four years to guide us on managing safety across all our business units. The Corporate Strategic Safety Plan complements our Corporate Safety Management Model, which provides an effective and robust framework for assuring our safety performance across our businesses.

As a result of the public order events in Hong Kong, the total number of reportable events[1] on our Hong Kong heavy rail and light rail networks increased by 16% in 2019. Excluding the impact caused by the public order events, the total number of reportable events would have decreased by 2%.

Enterprise Risk Management

Our business by its very nature is subject to a variety of risks and uncertainties, many of which change over time. This was particularly true of the past year, when our operations were affected by incidents associated with the public order events. Accordingly, we have been adopting many measures to further enhance the security and safety of our stations, passengers and staff, including early closures of the stations and additional security staffing.

On an ongoing basis, business units across the Company follow the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The Risk Committee, which is one of the Board Committees, reviews the ERM framework and policy, as well as the Company's top risks and emerging risks, and their respective mitigation measures.

The current top three focus areas for risk management of the Company include maintaining an effective and balanced relationship with key stakeholders, people and operations safety and new projects delivery and cost. All of us at the senior management level are fully aware of the key risks we face and are committed to attain the highest standards of corporate governance to ensure we are on top of these risks and able to take prompt actions accordingly.

1 *Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries), that are reportable to the Secretary for Transport and Housing and Director of Electrical and Mechanical Services of Government under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.*

OUR PEOPLE

As at 31 December 2019, MTR along with our subsidiaries employed a total of 17,742 people in Hong Kong and 16,521 people outside Hong Kong. Our associates employed an additional 16,534 people in and outside Hong Kong.

Our goal is to develop our colleagues in line with our business growth and succession needs, and their personal development. Our commitment to providing a fulfilling and caring environment to nurture and motivate our colleagues for better job performance and career advancement is demonstrated by the stability of our workforce, with the voluntary staff turnover rate remained low at 4.4% in Hong Kong during 2019. We provided an average of 7.1 training days per staff in Hong Kong during the year. We also continued to recognise and reward our colleagues for their dedication and professionalism through our robust human resources strategies in place in Hong Kong, the Mainland of China and international business hubs.

MTR ACADEMY

Our MTR Academy was established to train railway management and operational talents, as well as provide railway-related services, maintenance and management programmes for local and overseas participants. The MTR Academy also offers programmes that bring our rail expertise into the Mainland of China and Belt and Road countries. In 2019, close to 1,100 participants attended these programmes.

OUTLOOK

As I indicated at the beginning of my review, 2019 has been the most challenging year in our 40-year history as a company and certainly in my 24-year career with MTR.

Looking forward, we expect the outlook for both the global and local economy to be challenging, with many uncertainties in the current environment, such as the slower growth in major economies, the global geopolitical situation, ongoing local public order events in Hong Kong and the COVID-19 outbreak.

In our Hong Kong transport operations, even though our patronage has some defensiveness against slow economic growth, we will need to contend with a variety of risks and uncertainties, including higher unemployment, reduced tourist arrivals and, particularly, the recent COVID-19 outbreak.

As previously disclosed by the Company, the Group's Hong Kong transport operations, Hong Kong station commercial businesses and Hong Kong property rental businesses have been adversely affected as a result of the public order events in Hong Kong, which affected patronage, involved damage and vandalism to certain MTR stations and facilities, necessitating repair, maintenance or replacement and led to other costs being incurred for the enhancement of staffing and security as well as retail concessions and abatements.

Since the beginning of 2020, the COVID-19 epidemic has caused a significant impact on Hong Kong and other parts of the world. As a part of Hong Kong, we have been working together with the people of Hong Kong to fight against this outbreak.

As a result of the COVID-19 outbreak, several boundary crossings between Hong Kong and the Mainland have been closed (including the crossings at our Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations, as well as the

Intercity through train control point at Hung Hom Station), resulting in no cross boundary passengers during the period of closure and the closure of the station shops at these stations. As we have previously announced, in addition, the work-from-home and school closure measures, coupled with the much reduced tourist and local leisure travellers, are having a significant negative impact on the patronage of our Domestic Service.

For the two months of January and February in 2020, the Group's total rail and bus patronage under Hong Kong transport operations was down 34% as compared with the same period in 2019, mainly due to the impacts of COVID-19 and the aftermath effect of public order events. The recently opened Tuen Ma Line Phase 1 will only generate a marginal patronage increase, and hence its financial contribution is expected to be minimal in 2020. We have also recently announced that there will be no actual adjustment to MTR fares for the remainder of 2020.

The performance of our station retail and property rental businesses will depend on the retail market condition, which is likely to result in a decline in performance as a result of the public order events in Hong Kong and the more recent COVID-19 outbreak. For current leases, the Company has been implementing a number of rental relief measures, particularly for small to medium sized tenants (by waiving half of their rent in February and March 2020) while for leases to be renewed, we expect there will be downward pressure on the rentals. The LOHAS, our new mall at LOHAS Park, is still expected to open in the second half of 2020, but pre-leasing has been slower than expected as a result of the COVID-19 outbreak. The longer term impact of COVID-19 and the Hong Kong public order events on the asset valuation of our investment property portfolio will only be able to be ascertained once the market conditions have stabilised.

As a result of the above issues and, in particular, the COVID-19 outbreak, the Group's Hong Kong transport operations, Hong Kong station commercial and property rental businesses and also our Mainland China businesses, are being significantly affected. Based on our preliminary unaudited internal management accounts (which have not been reviewed or audited by the auditor of the Group), the estimated total financial impact of the COVID-19 outbreak and the aftermath of the Hong Kong public order events for the first two months of 2020 amounted to around HK$1.3 billion on the net profit of the Group's recurrent businesses, mainly attributable to lower patronage and therefore, lower revenue, relief agreed for tenants in relation to station closures, the half-month rental reduction granted to small to medium sized tenants for February, lower advertising revenue, as well as the negative financial impact on our Mainland China businesses. In response to this challenging situation and to mitigate the financial impact of it, while seeking to keep Hong Kong moving, the Group has taken a number of cost control measures. The impact of the COVID-19 outbreak on the Group is likely to continue for some time, but the precise timing and scale of the impact is difficult to predict and will depend on the development of the situation.

When taking into account the rail and property businesses as a whole, the Board of Directors of the Company is of the view that the overall financial position of the Group remains sound. The Board of Directors of the Company currently proposes to maintain the Company's present progressive ordinary dividend policy. The Board of Directors of the Company will continue to monitor the financial position and business prospects of the Group and will make further announcement(s), as appropriate.

On the property development front, after the award of LOHAS Park Package 12 in February 2020, in the next 12 months or so, subject to market conditions, we aim to tender out three property development packages which are likely to be our last package at LOHAS Park and our fifth and sixth packages at Wong Chuk Hang Station. These packages are expected to provide about 4,050 residential units in total. The booking of development profits from LOHAS Park Package 6 is now dependent on construction progress. Depending on market conditions, we currently expect to conduct pre-sales of LOHAS Park Package 8, 9C (OCEAN MARINI) and 10 and Tai Wai Station in the next 12 months.

For our new railway projects in Hong Kong, we will continue to work on the remaining sections of the Shatin to Central Link project and to prepare for the opening of the full Tuen Ma Line in 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), the targeted completion in the first quarter of 2022 is still facing challenges and there are continuing efforts being made with the aim of meeting the programme. We also anticipate working closely with Government on the three new railway projects referred to in the 2019 Policy Address and will seek new opportunities for growth in markets outside of Hong Kong.

I want to take this opportunity to congratulate Mr Adi Lau on his appointment to the role of Managing Director – Operations and Mainland Business, having previously served as Operations Director. He is succeeded in this latter role by Dr Tony Lee who, until his new appointment, was the Deputy Operations Director. Additionally, I would like to welcome Ms Linda Choy as the Company's new Corporate Affairs Director. She succeeds Ms Linda So, whom we thank for her years of service to the Company.

Finally, I want to extend a tremendous vote of thanks to all our staff, who have continued to show their commitment to our customers and communities during the challenging times of the past nine months. They have played a critical role in keeping our trains and property services running and maintained the highest level of professionalism at all times.

We will continue to work together with the communities to keep Hong Kong and all the cities that we serve moving forward in the year to come.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 5 March 2020