CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

The past year was one of the most difficult in the history of our company. COVID-19 presented stiff challenges to our operations and business, demanding decisive actions and resolute execution as we worked tirelessly to ensure that Hong Kong stayed on track throughout the worst of the pandemic.

Despite the circumstances, our dedicated colleagues rose to the occasion and performed admirably. We did our best to support our communities with strong service performance and an unwavering commitment to health and safety. Most importantly for the long-term prospects of both MTR and Hong Kong, we also formulated a visionary new corporate strategy, one that will support our future growth and deliver shareholder and stakeholder value by emphasising innovation and sustainability, particularly environmental, social and governance ("ESG") principles.

CORPORATE STRATEGY: "TRANSFORMING THE FUTURE"

Socioeconomic trends, technological advances and increasingly interconnected communities are driving transformational changes in our world. MTR aims to be at the vanguard of tomorrow by pursuing a new Corporate Strategy that allows us not only to anticipate and respond to change, but also to participate in its creation.

Our Corporate Strategy, "Transforming the Future", will firmly establish clear business and social and environmental goals under a robust ESG framework, driving the sustainability of our business and creating healthy, long-term, symbiotic relationships with the communities in which we operate. It will help us pursue business growth opportunities that support local economies and keep cities moving. We also aim to foster a corporate culture that responds to external changes with agility and care.

The new Corporate Strategy clearly defines our three core pillars, their importance to our company and how we intend to bolster them.

- **Pillar 1: Hong Kong Core**. We will continue to realise the full potential of our businesses in Hong Kong through expanding our existing businesses and entering into adjacencies, ensuring smooth delivery of projects as well as enhancing cost effectiveness. We will also strive to reduce carbon emissions, promote social inclusion and create opportunities for society as we develop new rail lines, properties and commercial activities across the city – increasing stakeholder value while also ensuring a sustainable business that grows together with the areas it serves.
- **Pillar 2: Mainland of China and International Business**. We will continue to maintain steady growth in the Mainland of China and globally. This pillar also enables us to build our presence in the Mainland and international markets, leveraging our corporate culture, expertise and, importantly, our brand.
- **Pillar 3: New Growth Engines**. Technology and innovation have long played key roles in MTR's success. This pillar is where we invest in new technologies and mobility services for long-term growth. It is instrumental both as an enabler and as a source of new business opportunities.

These pillars are supported by five enablers that together strengthen our operational foundation.

- Technology: utilising data and analytics to make decisions and identify opportunities, as well as investing in technology to improve effectiveness and efficiency and explore new business opportunities
- Organisation and Processes: strengthening organisational structures so as to make faster and more accountable business decisions
- People: investing resources in talent development and smart working with innovative methods and technology
- Finance: enhancing accountability and focus on sustainable financial goals
- Transformation Management Office: guiding the delivery of our Corporate Strategy

With the Corporate Strategy as our roadmap, we will continue endeavouring to "Keep Cities Moving" sustainably and more efficiently, helping our Company, its shareholders and stakeholders shape a better future together. To support the implementation of the Corporate Strategy, a new management organisation will be put in place by phases with the intention of clarifying accountability for the delivery of the Corporate Strategy and strengthening the Company's internal control and risk management framework. The first phase of the reorganisation has been implemented as announced on 10 February 2021.

COVID-19 AND THE "NEW NORMAL"

COVID-19 brought Hong Kong and other markets around the world to a virtual standstill as governments issued stay-at-home mandates, restricted travel and implemented various other anti-pandemic guidelines. The results were steep declines in tourism, retail, food and beverage, travel and a number of other industries.

Immediately following the outbreak, we took decisive and thorough measures to ensure public health and safety at our facilities. We increased the frequency and comprehensiveness of our cleaning routines. We employed sanitising robots to disinfect trains, especially in spaces that are hard to reach by cleaning crews. We applied technology to further enhance the hygiene of public-facing facilities at stations, reinforcing photocatalytic coating and introducing touch-free buttons for passenger lifts. We not only required masks in trains and stations but also provided sanitiser and even installed vending machines to make masks more accessible to the public. We launched our own face mask production lines to ensure a steady supply for our staff in addition to providing workplace personal protection equipment ("PPE"). We also initiated appropriate flexible work arrangements to safeguard our staff's health and safety against COVID-19. Outside of Hong Kong, we have also been dedicated in providing a safe and clean environment for our staff and customers.

Importantly, the pandemic showed just how significant corporate responsibility and governance principles are to MTR for ensuring sustainable operations. Underscoring our commitment to society and our support of local businesses in difficult times, we introduced a number of relief measures. These included offering fare rebates for commuters and granting rental concessions to most of our mall and station shop tenants, commencing in February and lasting throughout the year, with priority given to small to medium tenants. Earlier in the year, we donated 100,000 masks to communities in need, and our Board and Executive Directors donated part of their remuneration to local charity groups. We also placed vending machines at 20 stations for the public to conveniently pick up free COVID-19 specimen collection packs. Initiatives such as these demonstrated our care and commitment for the communities where we operate.

Financially, MTR was affected by significantly reduced train patronage owing to various pandemic control measures. We saw lower rental income as a result of the economic slowdown and rental concessions given to tenants who were suffering from cross-boundary station closures and reduced footfall at our commercial properties. Advertising income also came under severe pressure due to poor retail sales and consumer sentiment. Therefore, we adopted a number of measures to alleviate these impacts, including making timely adjustments of off-peak-hour service level in response to changes in travel demand; ensuring even higher levels of travel health and safety; enhancing MTR Mobile loyalty programmes and lifestyle content; making rental leases more attractive through greater flexibility and shorter terms; building tenant loyalty by granting rental concessions, particularly to small to medium tenants; and implementing stringent cost controls.

Many of the changes our society has experienced are likely to continue as governments around the world continue to grapple with containing COVID-19. Mask-wearing, social distancing, work-from-home policies, greater reliance on e-commerce, and intensified cleaning and sanitisation routines are all potentially part of the "new normal". We are adjusting ourselves for the "new normal" through digital development. For example, we are leveraging MTR Mobile to further improve the customer experience; providing more payment options at gates; developing new and effective hygiene measures to maintain public confidence; improving cost efficiency through technology deployment; launching "online-offline" advertising packages; introducing new retail modes; and continuing our data strategy to capture business opportunities and make operational improvements. As an important transport provider in Hong Kong and overseas, one that keeps people moving and connected every day, we have fully taken on board the lessons of the novel coronavirus and will continue to help set the new standards for public health and safety and staff well-being.

2020 POLICY ADDRESS AND RDS 2014

In our Hong Kong railway business, MTR continued to work toward helping Government achieve its objectives for the future development of the city's transport infrastructure as outlined in the 2020 Policy Address and Railway Development Strategy 2014 ("RDS 2014").

Under RDS 2014, we awarded the design consultancies for the Tung Chung Line Extension and Tuen Mun South Extension (which will become the Tuen Ma Line Extension in the future) after being invited earlier in the year to proceed with detailed planning and design for the two projects. We were also invited by Government to proceed with detailed planning and design for Kwu Tung Station and the Northern Link.

To support Government's housing supply policy, we have been invited by Government to proceed with technical studies on the development of the Siu Ho Wan Depot site, which is planned to offer approximately 20,000 residential units as well as community and retail facilities. Advance works and design are underway.

In 2020, we submitted the remaining proposals under RDS 2014 – the Hung Shui Kiu Station and South Island Line (West) projects – to Government.

OVERCOMING CHALLENGES ENCOUNTERED

We decided in September 2020 to postpone the commencement of the new signalling system and gradual introduction of the new nine-car trains on the East Rail Line in order to properly resolve the route recall situation, which has no impact on safety. After completing additional testing and obtaining approvals from relevant

Government departments, the new signalling system and new trains on the East Rail Line were commissioned on 6 February 2021.

The Final Report of the Commission of Inquiry ("COI") into the Construction Works at and near the Hung Hom Station Extension under the Shatin to Central Link and the Final Report of the Expert Advisor Team ("EAT") on the Shatin to Central Link project were released in May 2020 and February 2021, respectively. The COI report concluded that the relevant structures at and near Hung Hom Station are safe and fit for purpose with the completion of suitable measures. Separately, the EAT report also concluded that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of suitable measures. Over the past two years, we have already introduced a number of improvements in our project management systems. Many of these enhancements have now been incorporated into our standard project management practices and procedures and will be applied for the completion of the Shatin to Central Link as well as new railway projects.

We also moved quickly to implement a number of improvement measures following the March 2020 release of the investigation report into the derailment incident near Hung Hom Station along the East Rail Line.

BUSINESS HIGHLIGHTS AND PERFORMANCE

In a difficult year, there were still a number of highlights to note. We once again posted excellent 99.9% performance for train service delivery and on-time passenger journeys. Meanwhile, technology continued to be an increasingly important contributor to our operations. The year under review saw us enhancing the information, news and functions of MTR Mobile to improve the customer experience as well as increase our use of smart asset management to boost railway reliability. We opened Tuen Ma Line Phase 1 in February 2020 and are on schedule to open the full line in the third quarter of 2021.

MTR made good progress in property development in Hong Kong. We awarded the tenders for LOHAS Park Package 12 and Package 13 in 2020 and The Southside (also known as "Wong Chuk Hang Station Property Development") Package 5 in January 2021, and we opened The LOHAS shopping mall in August 2020.

In Mainland of China and International businesses, we were awarded Shenzhen Metro Line 13, a public-private partnership ("PPP") project for investment in and construction of the line as well as operations and maintenance ("O&M") for 30 years after completion. We were awarded the O&M concession for the Mälartåg train service in Sweden for eight years starting from December 2021. We also opened the full Hangzhou Metro Line 5 ("HZL5") in April, the Shenzhen Metro Line 4 North Extension in October, and Hangzhou Metro Line 1 Phase 3 (Airport Extension) and the Middle Section of Beijing Metro Line 16 in December.

As announced on 19 January 2021, our financial results in 2020 were affected by the significant impact of the COVID-19 pandemic. Loss arising from recurrent businesses for the year was HK$1,126 million. Property development profit for the year decreased by 1.3% to HK$5,507 million. As a result, profit arising from underlying businesses decreased by 58.5% to HK$4,381 million. Including the loss arising from investment property revaluation (a non-cash accounting item), net loss attributable to shareholders of the Company was HK$4,809 million, representing loss per share after revaluation of HK$0.78.

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, same as that of 2019.

HONG KONG BUSINESSES

MTR's "Hong Kong Core" is one of the Company's three strategic pillars. Our "Rail Plus Property" business model drives revenue for this pillar through diversified streams, enabling the Company and its shareholders to participate in and benefit from Hong Kong's expanding transport links as well as their associated developments.

Transport Operations

HK$ million	Year ended 31 December 2020	2019	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**11,896**	19,938	(40.3)
(Loss)/Profit before Depreciation, Amortisation and Variable Annual Payment ("EBITDA")	**(422)**	5,909	n/m
(Loss)/Profit before Interest and Finance Charges and after Variable Annual Payment ("EBIT")	**(5,408)**	(591)	(815.1)
EBITDA Margin (in %)	**(3.5)%**	29.6%	(33.1)% pts
EBIT Margin (in %)	**(45.5)%**	(3.0)%	(42.5)% pts

n/m: not meaningful

In 2020, total revenue from Hong Kong transport operations decreased by 40.3% to HK$11,896 million from HK$19,938 million in 2019. Loss before interest and finance charges and after the variable annual payment was HK$5,408 million. These results were primarily due to the COVID-19 outbreak, which had negative impacts on patronage and average fare from early 2020 onward.

Patronage and Revenue

	Patronage in millions 2020	Patronage Inc./(Dec.) %	Revenue HK$ million 2020	Revenue Inc./(Dec.) %
Hong Kong Transport Operations				
Domestic Service	**1,145.0**	(27.0)	**9,229**	(27.4)
Cross-boundary Service	**7.6**	(92.7)	**516**	(83.7)
High Speed Rail ("HSR")	**1.0**	(93.9)	**1,277**	(39.1)
Airport Express	**3.1**	(80.5)	**140**	(86.2)
Light Rail and Bus	**154.0**	(25.8)	**481**	(29.0)
Intercity	**0.1**	(94.5)	**20**	(88.6)
	1,310.8	(31.5)	**11,663**	(41.2)
Others			**233**	135.4
Total			**11,896**	(40.3)

Total patronage across all MTR rail and bus passenger services decreased by 31.5% to 1,310.8 million compared to 2019. Average weekday patronage decreased by 30.9% to 3.88 million. The closures of Cross-boundary Service and the High Speed Rail ("HSR") due to COVID-19 together had a significant impact on cross-border patronage. Passengers of Domestic Service decreased by 27.0% to 1,145.0 million as a result of Government- and workplace-mandated social distancing measures as well as school closures, which caused more people to work and study from home. Travel restrictions greatly affected the number of air travellers entering and departing Hong Kong, resulting in an 80.5% decrease in Airport Express patronage.

To stimulate ridership in response to the challenges posed by the COVID-19 pandemic, we have been promoting non-peak travel and creating attractive fare, ticket and pass promotions. We are leveraging our constantly evolving MTR Mobile to effectively bring the latest offers to users. More than ever, we have been regularly reviewing our train schedules to account for demand fluctuations and ensure customer convenience. We are also seeking to promote MTR to domestic users as the preferred transit method for exploring the numerous travel and sightseeing opportunities within Hong Kong.

Market Share

The Company's overall market share of the franchised public transport market in Hong Kong in 2020 was 45.3% compared with 47.4% in 2019. This decline was mainly due to the precipitous drop in patronage owing to the COVID-19 pandemic for Cross-boundary Service, HSR and Airport Express, in which we have a relatively higher market share than other franchised transport operators. Our share of cross-harbour traffic was 66.1% compared with 67.5% in 2019. Our share of the cross-boundary business for 2020, including HSR and Cross-boundary Service, fell to 47.2% from 51.3%. Our share of traffic to and from the airport decreased to 16.3% from 20.5%.

Fare Adjustment, Promotions and Concessions

Passengers using Octopus received a rebate of 3.3% on every trip, in effect paying no actual fare increase as set by the +3.3% Fare Adjustment Mechanism ("FAM") for 2019/2020. In 2020, we made no price adjustments for various tickets and passes, offered discount promotions, and granted HK$1.7 billion in on-going fare concessions to the elderly, children, students and persons with disabilities.

In April 2020, MTR announced a six-month package of economic relief measures, including a 20% rebate on every Octopus trip and HK$100 discounts on MTR City Saver and Monthly Pass Extras; in November 2020 these measures were extended till March 2021 and June 2021, respectively. Government agreed to bear half of the total actual revenue forgone arising from these measures during the period between July 2020 and March 2021.

With no fare increase in 2020 owing to the negative growth of Median Monthly Household Income, the announced 2020/2021 FAM of +2.55% may be recouped over the subsequent two years, with +1.28% to be recouped in 2021/2022 and +1.27% to be recouped in 2022/2023. The +0.3% fare adjustment for the announced 2019/2020 FAM that was not implemented may also be recouped in 2021/2022. Such recoupments will be made subject to the provisions of the FAM.

Service Performance

MTR prides itself on service reliability and excellence. In 2020, we were able to achieve an exemplary 99.9% on-time mark for passenger journeys and train service delivery for our heavy rail network. Passenger journeys on-time are defined as those that are completed within five minutes of their scheduled journey times, while train service delivery measures actual train trips against those scheduled to be run.

In 2020, MTR ran more than 1.78 million trips on its heavy rail network and more than 1 million trips on its light rail network. Of these, the heavy rail network and light rail network experienced eight delays and no delays, respectively, defined as those lasting 31 minutes or more and attributable to factors within the Company's control. The light rail network continued its record dating back to 2019 of no delays lasting 31 minutes or more and attributable to factors within the Company's control. In all cases of delay, we thoroughly investigate the circumstances and take necessary steps to ensure that similar instances do not occur again in future.

An Investigation Panel was convened to examine delays to the commencement of the new signalling system and gradual introduction of new trains on the East Rail Line, an important part of the Shatin to Central Link project. An investigation report was submitted in January 2021. Safety has been reaffirmed by the technical investigation, which showed that the concerned issue was caused by a non-safety-critical software module being overloaded by a new software module specifically built for the Company to provide extra train monitoring information to the Operations Control Centre. The contractor resolved the issue by upgrading the software and stopping the new software module. Following satisfactory completion of all further testing and approvals from relevant Government departments on the safe and sound condition of the new signalling system and new trains, the new signalling system and trains were commissioned on 6 February 2021.

On 3 March 2020, MTR released to the public the investigation report detailing the train derailment near Hung Hom Station in September 2019. Investigators concluded that the derailment was caused by dynamic track gauge widening at a turnout near the station. Following the release of the report, the Company took immediate actions to prevent similar incidents.

Enhancing the Customer Service Experience

MTR places great emphasis on delivering a world-class customer experience, and the year under review saw us once again embark upon a number of enhancement projects for our trains and stations. In line with one of our core strategic pillars, we are also keen on areas such as smart mobility as well as smart operations and maintenance to drive our future growth.

Boosting Passenger Convenience

On 14 February 2020, we opened Phase 1 of the Tuen Ma Line, commencing services at the new stations of Hin Keng and Kai Tak as well as the expanded section of

Diamond Hill Station. The average daily usage of these three stations was 125,000 passengers from opening to the end of 2020.

During the pandemic we strove to balance public health with the need to maintain sufficient service, increasing and decreasing non-peak service based on social distancing requirements as well as work and school guidelines. We continue to monitor the situation closely to provide adequate service while also ensuring public health.

Greater Comfort for Passengers

MTR has ordered 93 new heavy rail eight-car trains and 40 new light rail vehicles to retire older trains and vehicles before their life expiry. Nine new heavy rail trains have been delivered and two more are scheduled to be delivered by early 2021. The first two new light rail vehicles were put into service in November 2020; eight more have been delivered and were undergoing testing and commissioning as at the end of 2020.

Since 2017, we have been systematically replacing chillers throughout our stations and depots to ensure comfortable environments for passengers and staff. This work is expected to be completed in 2023.

We are also upgrading our signalling system to increase service capacity. Software revamping and assurance work on the Tsuen Wan Line signalling system is progressing slowly, further compounded by COVID-19 lockdown measures imposed at the contractor's office in Canada. Work is also underway on the replacement of the signalling systems for the Island, Kwun Tong and Tseung Kwan O lines. Work on the signalling of the Tung Chung and Disneyland Resort lines as well as Airport Express will be planned together with the Tung Chung Line Extension under RDS 2014.

Enhancing Station Facilities

To provide greater comfort and convenience for passengers, we opened new public toilets and baby care rooms at the stations along Phase 1 of the Tuen Ma Line in February 2020 as well as Yau Ma Tei and North Point stations in June 2020 and September 2020, respectively. We also continued to install drinking water dispensers at selected stations to meet passenger needs and reduce plastic waste. New external lifts and escalators were provided to further improve barrier-free access at stations. Over 100 passenger lifts across the network have now been equipped with "contactless" lift button sensors to protect our customers during the pandemic.

To help passengers stay connected while on the go, our free Wi-Fi coverage was expanded during the year from station hotspots to all station platform and concourse areas. We continued to increase the number of mobile charging spots available in stations, including USB charging sockets and wireless charging pads. There are now mobile charging facilities at 29 stations, including all interchange stations.

Smart Mobility to Enhance Customer Journeys

MTR is committed to keeping abreast of technologies and trends that can help communities stay connected and ride smart. The new MTR Mobile features railway and other transport information and functions, news and offers from MTR Malls and station shops, and a variety of lifestyle content. Its MTR Points loyalty scheme enables customers to earn and redeem MTR Points for free rides and other attractive rewards. The "Next Train" function now shows estimated times of arrival for selected heavy rail and light rail lines. "Trip Planner" now recommends up to three journey options. "Traffic News" lets passengers enter their preferred time and date for a point-to-point route and informs them of any service disruptions through push notifications.

To digitalise and automate customer touchpoints and deliver a smarter, more seamless travel experience, a number of initiatives were introduced in 2020. For example, passengers can purchase monthly passes in advance via MTR Mobile and avoid queues. Students may now use the app to renew their "Student Status" on their Octopus cards and continue enjoying concessionary fares. Starting from 23 January 2021, passengers can tap the entry/exit gates with a QR code ticket on MTR Mobile or EasyGo on AlipayHK, marking a new milestone for MTR's efforts to promote smart mobility.

Smart Operations and Maintenance

In 2020, we continued to improve our services through innovation by introducing five AI-powered "smart trainee" robots to the Kai Tak Station operations team. Their functions include giving passengers directions, helping with journey planning, inspecting station facilities and carrying out cleaning tasks. We launched the InnoEtronic invention zone and robotics co-working space at Kowloon Bay Depot, a strategic partnership that explores innovative technologies for smart rolling stock maintenance. Automatic Air-conditioning Filter Cleaning Machines were installed at the Pat Heung and Chai Wan depots to replace tedious manual cleaning and standardise filter cleaning quality and efficiency. We started trials for an Underframe Inspection Robot at Pat Heung Depot, which is designed to automate part of the rolling stock inspection process by using image recognition, AI and precise motion control to identify and report anomalies. We also started trialling a Smart Train Roof and Pantograph Monitoring System at Tuen Ma Line Phase 1, which automatically captures a complete image of the train pantograph and train roof and uses image recognition technology to identify potential anomalies and alert users to prevent further escalation of failure.

MTR has also been exploring and adopting smart asset management to improve the reliability of its railway services. We are currently trialling SmartChain, a blockchain-based platform that optimises supply chain management and workflow transparency. We developed an award-winning Maintenance Cloud System and Condition Monitoring Hardware to manage manpower and monitor train relay electronic performance in real time. Smart Train Planning, rolled out in October 2020, is a self-regulating AI platform using cloud technology that shortens train downtime by optimising train deployment and maintenance. A Digital Monitoring System for workshop processes is in development to help staff plan and monitor train maintenance. We also began using Smart Forms mobile app to digitise information and records, resulting in faster, higher-quality maintenance work.

Station Commercial Businesses

HK$ million	Year ended 31 December 2020	2019	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**2,021**	4,800	(57.9)
Advertising Revenue	**516**	1,130	(54.3)
Telecommunication Income	**640**	743	(13.9)
Other Station Commercial Income	**92**	126	(27.0)
Total Revenue	**3,269**	6,799	(51.9)
EBITDA	**2,760**	6,119	(54.9)
EBIT	**2,502**	5,122	(51.2)
EBITDA Margin (in %)	**84.4%**	90.0%	(5.6)% pts.
EBIT Margin (in %)	**76.5%**	75.3%	1.2% pts.

In 2020, total revenue from all Hong Kong station commercial activities decreased by 51.9% to HK$3,269 million. This was mainly due to rental concessions granted to tenants who were affected by station closures and suspended cross-boundary rail services following border shutdowns, as well as rental concessions granted to other station shop tenants during the COVID-19 outbreak.

During the year, COVID-19 caused steep declines in tenant business at MTR stations due to anti-pandemic measures, travel restrictions and the weak economic environment, which greatly reduced store business and almost completely eliminated overseas and cross-boundary tourism. Advertising revenue was also significantly impacted. To address these issues, MTR offered more aggressive advertising sales packages as well as solutions encouraging tenants to use more online-offline retail, which enables customers to receive offers digitally and fulfil them in-store, thus driving sales while reducing face-to-face interaction. We also digitalised our advertising panels and back-end system to boost the visual appeal and digital creativity of our advertising offerings for advertisers.

Rental concessions and the closure of duty free shops in border stations resulted in a 57.9% decrease in station retail rental revenue to HK$2,021 million. In addition to rental concessions granted to tenants affected by the suspended cross-boundary rail services, MTR also offered rental relief to small to medium tenants in other station shops by granting half-month reductions of their rents from February to April 2020. Rental relief for large corporations was considered on a case-by-case basis. From May to December 2020, we continued offering rental relief to all tenants. Rental reversion and average occupancy rates in 2020 for station kiosks were approximately -8% and 98.3%, respectively.

During the year, the Company continued to employ innovative marketing promotions to stimulate retail activity. The MTR Points loyalty scheme, introduced in May 2020, encourages customers to ride on MTR, make purchases at designated station shops and MTR Malls, and redeem gifts with earned MTR Points. We also launched promotional campaigns from time to time, including special offers from station shops and MTR Malls to boost sales. Meanwhile, our two "v-smart" unmanned automated station shops at Kowloon and Tsing Yi stations continued to offer customers a new retail experience.

As at 31 December 2020, the lease expiry profile of our station kiosks (including duty free shops) by area occupied was such that approximately 32% will expire in 2021, 47% in 2022, and 21% in 2023 and beyond.

In terms of trade mix, food and beverage accounted for approximately 22% of the leased area of our station kiosks (excluding duty free shops), followed by cake shops 16%, convenience stores 14%, passenger services 11% and others 37% as at 31 December 2020.

Revenue from advertising decreased by 54.3% to HK$516 million in 2020 as the COVID-19 outbreak resulted in steep declines in tourism and retail sales, causing advertisers to postpone or cancel campaigns. To drive sales in a difficult market, the Company offered value-added packages to capture limited budgets and late bookings.

Telecommunications revenue decreased by 13.9% to HK$640 million in 2020. This was attributed to the special fee concession given during the COVID-19 pandemic and subsequent economic downturn as well as the revised fee due to contract renewal. Our project to increase capacity by installing a new commercial telecom system at 31 of our stations is well underway with 26 stations completed as at 31 December 2020. Some telecom operators had launched 5G services at 40 stations as at year-end.

Property Businesses

Property Rental and Management

HK$ million	Year ended 31 December 2020	2019	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**4,817**	4,833	(0.3)
Revenue from Property Management	**237**	304	(22.0)
Total Revenue	**5,054**	5,137	(1.6)
EBITDA	**4,204**	4,286	(1.9)
EBIT	**4,185**	4,264	(1.9)
EBITDA Margin (in %)	**83.2%**	83.4%	(0.2)% pt.
EBIT Margin (in %)	**82.8%**	83.0%	(0.2)% pt.

Property rental revenue decreased by 0.3% year on year to HK$4,817 million in 2020. This was mainly due to relief measures provided to tenants during the pandemic, which were granted on a case-by-case basis with priority given to small to medium tenants. However, these concessions were partially offset by the incremental contribution from our newly opened and acquired shopping malls. In 2020, MTR shopping malls recorded a negative rental reversion of approximately 21% due to adverse retail sentiment. Our shopping malls (other than The LOHAS, which was opened in August 2020) and the Company's 18 floors in Two International Finance Centre had average occupancy rates of 99% and 98%, respectively.

As at 31 December 2020, the lease expiry profile of our shopping malls by area occupied was such that approximately 33% will expire in 2021, 30% in 2022, 20% in 2023, and 17% in 2024 and beyond.

In terms of trade mix as at 31 December 2020, food and beverage accounted for approximately 29% of the leased area of our shopping malls, followed by fashion, beauty and accessories 22%, services 22%, leisure and entertainment 17%, and department stores and supermarkets 10%.

Steep declines in tourist traffic and domestic spending negatively impacted our mall rental business, while work-from-home arrangements and the weak economic environment adversely affected our office tenants' business expansion plans and reduced their space requirements. We remained keenly attuned to the business difficulties faced by our mall tenants, particularly those operating in food and beverage and discretionary segments, collaborating with them on initiatives such as loyalty and redemption programmes to boost business. We helped e-commerce and online merchants open pop-up stores at our properties to help drive mall traffic. We are also considering widening the trade mix in our malls to further diversify our offerings.

During the year the Company held a number of marketing programmes across its commercial portfolio to drive sales. Many of these were conducted via MTR Mobile, which delivers news and offers related to shopping, dining and parking services at MTR Malls.

In August 2020, MTR opened Phase 1 of The LOHAS shopping mall to support the daily needs of residents. Phase 2 was opened in November 2020 with a cinema, a new retail pop-up zone, and a series of smart services and digital interactive motion zones. In 2020, the Company also acquired the remaining economic interests in Telford Plaza II and PopCorn 2 shopping centres and now holds 100% interest in both, alleviating the impact of COVID-19 and the economic downturn through increased rental income. Repartitioning work for the fourth and fifth levels of Telford Plaza II has been completed, and all shops are now open.

Property management revenue in Hong Kong decreased by 22.0% to HK$237 million compared to 2019.

Property Development and Tendering

Hong Kong property development profit for the year was HK$5,442 million, which was primarily derived from the surplus proceeds from LOHAS Park Package 6 and sales of inventory units.

Pre-sales activities of MTR properties have progressed well for The Pavilia Farm I and The Pavilia Farm II, both located at Tai Wai Station, with approximately 97% and 95%, respectively, of units sold as at 31 December 2020. Also as at 31 December 2020, approximately 70% of units at SEA TO SKY (LOHAS Park Package 8) and 97% of units at MARINI, GRAND MARINI and OCEAN MARINI (LOHAS Park Package 9) had been sold. Pre-sale for LP10 (LOHAS Park Package 10) commenced in January 2021.

West Rail property sales activities for Cullinan West III (Nam Cheong Station) and Sol City (Long Ping Station (South)), where we act as the agent for the Kowloon-Canton Railway Corporation, also continue. The application for pre-sale consent for Yuen Long Station property development (Phase 1) is in progress.

In February 2020, MTR awarded the tender for LOHAS Park Package 12 to a subsidiary of Wheelock and Company Limited. In October 2020, the Company awarded the tender for LOHAS Park Package 13 to a consortium formed by Sino Land Company Limited, Kerry Properties Limited, K. Wah International Holdings Limited and China Merchants Land Limited. In January 2021, the Company awarded the tender for The Southside Package 5 to a consortium formed by New World Development Company Limited, Empire Development Hong Kong (BVI) Limited, CSI Properties Limited and Lai Sun Development Company Limited. For the Ho Man Tin Station Package 1 property development project, a novation agreement has been reached between MTR Corporation Limited, Goldin Properties Holdings Limited and Great Eagle Group. The Company will work together with Great Eagle Group to bring this project to completion.

GROWING OUR HONG KONG BUSINESSES

MTR's "Hong Kong core" business pillar is supported by the "Rail Plus Property" model, which enables the Company, its shareholders and stakeholders to benefit from the city's growing transport links as well as their associated urban development. The year under review saw us continue to grow our Hong Kong business through the Shatin to Central Link and the new projects under Government's RDS 2014.

Shatin to Central Link

The 17-km Shatin to Central Link, a Government project managed by MTR, is a vital infrastructure initiative that will greatly enhance the existing railway network and reduce travel times between major population centres in Hong Kong.

As at 31 December 2020, the Tai Wai to Hung Hom section of the Shatin to Central Link was 99.99% complete. Phase 1 of the Tuen Ma Line, which connects communities around Hin Keng, Diamond Hill and Kai Tak stations, opened in February 2020. The full opening of the Tuen Ma Line, which will connect Phase 1 with the West Rail Line via Sung Wong Toi, To Kwa Wan, Ho Man Tin and Hung Hom stations, is expected in the third quarter of 2021. Trial operations of the full Tuen Ma Line began in January 2021, marking a major milestone towards the commencement of passenger service.

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 extension. As reported earlier, the introduction of the new signalling system was put on hold in September 2020 and the system was finally commissioned in February 2021 following the satisfactory completion of all further testing and approvals from relevant Government departments. After reviewing the report of the investigation panel, the Company has established a dedicated "Shatin to Central Link Technical and Engineering Assurance Team" to monitor the project from both technical and service readiness perspectives, as well as to identify any important potential issues regarding the project's remaining works for timely reporting and follow-up. A new Service Reliability Report will also be introduced as part of Government's reviewing mechanism of the commissioning of new lines to ensure the timely reporting and handling of issues with potentially significant reliability impacts. The Company will also implement other recommendations made in the report of the investigation panel.

The Hung Hom to Admiralty section was 91.2% complete as at 31 December 2020. In July 2020, we completed track-laying works for the Hung Hom Station to Admiralty Station section, and a topping-out ceremony for Exhibition Centre Station was held in November 2020. Due to the major challenges encountered, the targeted opening date of the first quarter of 2022 is significantly at risk. The Company is working to the best of its ability to open the line at the earliest opportunity.

On 12 May 2020, Government released the Final Report of the COI into the Construction Works at and near the Hung Hom Station Extension under the Shatin to Central Link. According to the COI report, the relevant structures at and near the Hung Hom Station Extension are safe and fit for purpose with the completion of suitable measures. These measures were completed in mid-2020. Separately, the EAT report also concluded that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of suitable measures.

The Group has made a provision of HK$1.4 billion for the estimated additional cost to the Company of continuing to comply with its project management responsibilities in its consolidated profit and loss account for the year ended 31 December 2020. Further details can be found in note 21B to the Consolidated Accounts of this Annual Report.

Other New Railway Projects

Working under the RDS 2014 framework for the future development of Hong Kong's railway network which will potentially add 35 km to our network, we were invited by Government in April, May and December 2020 to proceed with the detailed planning and design of the Tung Chung Line Extension, Tuen Mun South Extension, and Kwu Tung Station and the Northern Link, respectively. We awarded the design consultancies for the Tung Chung Line Extension and Tuen Mun South Extension in June and October 2020, respectively, and have proceeded with ground investigation works and environmental impact assessments. Procurement of the design consultancies for Kwu Tung Station and the Northern Link has commenced.

In May 2020, we submitted a proposal to Government for the Hung Shui Kiu Station project, and we continue to provide further information and details to Government. We also submitted a project proposal for the South Island Line (West) in December 2020. We are currently working alongside Government to address technical challenges on the East Kowloon Line and North Island Line projects.

Expanding the Property Portfolio

Investment Properties

Our shopping centres in Tai Wai and Wong Chuk Hang (now named "The Southside") are expected to open in 2023. These two new malls will add 107,620 square metres to the attributable GFA of our existing retail portfolio as at 31 December 2020, representing an increase of approximately 30%.

Residential Property Development

Our 17 new residential property projects under development are expected to deliver over 23,000 units to the market in the coming five years, supporting Government's efforts to increase housing supply.

We have been invited by Government to proceed with the technical studies on the Siu Ho Wan Depot site topside development, which will provide about 20,000 residential units in the medium to long term, about half of which will be Subsidised Sale Flats. The development will also provide community facilities and a 30,000-square-metre shopping mall. The design and planning of advance works have commenced.

The draft Outline Zoning Plans for the Tung Chung Traction Substation site and Pak Shing Kok Ventilation Building site were gazetted in June 2020. Subject to completion of the rezoning process and the subsequent land grant for development, we will tender out these two sites in the next 12 months or so. Subject to our entering into a project agreement with Government, we will tender out Tung Chung East Station Package 1 in the next 12 months or so. Meanwhile, we are also exploring the development potential of sites along existing and future railway lines, including the Tuen Mun South Extension, Kwu Tung Station and Northern Link.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

MTR's Mainland of China and International businesses together represent one of the three strategic pillars of our Corporate Strategy. In 2020, it served a total of approximately 1.38 billion passengers in the Mainland of China, Macao, Europe and Australia through various subsidiaries and associates. While COVID-19 affected passenger numbers, patronage losses had varied impacts on our financial performance depending on the business models for different business contracts.

	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	**2020**	2019	Inc./(Dec.) %	**2020**	2019	Inc./(Dec.) %	**2020**	2019	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**1,836**	1,881	(2.4)	**19,592**	19,204	2.0	**21,428**	21,085	1.6
EBITDA	**224**	529	(57.7)	**309**	796	(61.2)	**533**	1,325	(59.8)
EBIT	**212**	517	(59.0)	**49**	572	(91.4)	**261**	1,089	(76.0)
EBIT (Net of Non-controlling Interests)	**212**	517	(59.0)	**61**	412	(85.2)	**273**	929	(70.6)
EBITDA Margin (in %)	**12.2%**	28.1%	(15.9)% pts.	**1.6%**	4.1%	(2.5)% pts.	**2.5%**	6.3%	(3.8)% pts.
EBIT Margin (in %)	**11.5%**	27.5%	(16.0)% pts.	**0.3%**	3.0%	(2.7)% pts.	**1.2%**	5.2%	(4.0)% pts.
Recurrent Business Profit/(Loss)	**174**	**472**	**(63.1)**	**(4)**	**200**	**n/m**	**170**	**672**	**(74.7)**
Associates and Joint Venture									
Share of EBIT	**844**	1,005	(16.0)	**63**	(403)	n/m	**907**	602	50.7
Share of Profit/(Loss)	**363**	**457**	**(20.6)**	**61**	**(403)**	**n/m**	**424**	**54**	**685.2**
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**1,056**	1,522	(30.6)	**124**	9	1,277.8	**1,180**	1,531	(22.9)
(Loss)/Profit Attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses)							**594**	**726**	**(18.2)**
– Business Development Expenses							**(183)**	(201)	(9.0)
– Arising from Recurrent Businesses (after Business Development Expenses)							**411**	**525**	**(21.7)**
– Arising from Mainland of China Property Development							**65**	49	32.7
– Arising from Underlying Businesses							**476**	**574**	**(17.1)**

n/m: not meaningful

In the Mainland of China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries decreased by 63.1% to HK$174 million in 2020. This was mainly due to COVID-19's impact on fare revenue from Shenzhen Metro Line 4 ("SZL4") as well as rental concessions granted to our shopping mall tenants.

In our International businesses, recurrent business loss from our railway subsidiaries was HK$4 million for the year compared to the recurrent business profit of HK$200 million in 2019. This was mainly due to lower farebox revenue from Metro Trains Melbourne Pty. Ltd. and MTRX (formerly known as MTR Express) due to COVID-19 and an initial operating loss by our O&M business at Sydney Metro North West. These impacts were partially offset by much-improved operating performance from Stockholms pendeltåg.

Our share of profits from our associates and joint venture increased to HK$424 million in 2020 from HK$54 million in the previous year. This was mainly due to the one-off onerous contract provision of HK$436 million made in 2019 for First MTR South Western Trains Limited, which was offset somewhat by the negative impact of COVID-19 in our Hangzhou and Beijing operations.

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 a net after-tax profit of HK$411 million in 2020 on an attributable basis. This represented a decrease of 21.7% compared with 2019.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our associate operates Beijing Metro Line 4 ("BJL4"), the Daxing Line, the first three phases of Beijing Metro Line 14 ("BJL14"), and the Northern and Middle sections of Beijing Metro Line 16 ("BJL16"). COVID-19 impacted patronage of all lines during the year.

Construction of the full BJL14 and BJL16 continued during the year. BJL16 Middle Section opened in December 2020. BJL14 full line and first phase of Beijing Metro Line 17 are scheduled to open in late 2021. BJL16 full line is expected to open in late 2022 at the earliest.

Shenzhen

SZL4, operated by our wholly owned subsidiary, saw a decline in patronage in 2020 due to COVID-19. There has been no increase in fares at SZL4 since we began operating the line in 2010. In July 2020, the Shenzhen Municipal Government publicised a fare adjustment framework for the Shenzhen Metro network that will take effect on 1 January 2021 for five years. This framework is expected to enable the establishment of a fare-setting mechanism and the procedures for fare adjustment. However, if a suitable fare increase and adjustment mechanism are not implemented soon, the long-term financial viability of this line will be impacted.

The Company signed the O&M agreement for the SZL4 North Extension in 2020, and the extension formally opened on 28 October 2020.

Hangzhou

Our businesses in Hangzhou include Hangzhou Metro Line 1 ("HZL1"), the HZL1 Xiasha Extension and HZL5. HZL1 Phase 3 (Airport Extension) formally opened at the end of December 2020. The full HZL5 commenced operation in April 2020.

Property Businesses in the Mainland of China

At the Tiara – the residential development at Shenzhen Metro Longhua Line Depot Site Lot 1 – more than 98% of units have been sold and handed over to buyers.

COVID-19 negatively impacted the occupancy rates and patronage of Ginza Mall in Beijing and TIA Mall in Shenzhen. The Company granted rental concessions to eligible tenants to help them withstand the impact of business disruption caused by the pandemic.

In Tianjin, project completion for the Beiyunhe Station shopping centre development has been delayed to 2024 as additional works are required for railway safety assurance during basement construction.

Macao Railway Business

MTR operates and maintains Macao's first rapid transit system, the Macao Light Rapid Transit Taipa Line, which opened in December 2019. We also provide project management and technical support to other light rail lines and extensions in the city.

Europe Railway Business

United Kingdom

In London, our wholly owned subsidiary operates the Crossrail operating concession under the TfL Rail brand. MTR continues to support the phased opening of TfL Rail, which will be renamed Elizabeth Line upon the opening of the Central Operating Section. Although ridership has fallen, TfL Rail services have managed to minimise the risks presented by COVID-19. Our financial interest is reasonably protected as this concession has no fare revenue risks.

Our associate operates the South Western Railway ("SWR") franchise, one of the largest rail networks in the UK. Services for the SWR were also reduced during lockdown as a result of COVID-19. SWR was transitioned into the Emergency Recovery Measures Agreement in September 2020 for a period spanning to May 2021.

Sweden

MTR is the largest rail operator in Sweden by passenger volume. It operates three rail businesses via wholly owned subsidiaries: Stockholm Metro (Stockholms tunnelbana), MTRX and the Stockholm commuter rail service (Stockholms pendeltåg).

During the pandemic, Stockholm Metro continued to run a full service with strong operational performance. MTRX has been operating a reduced service since March 2020 due to travel restrictions and decreased demand. Stockholms pendeltåg continued to run a full service while recording high punctuality.

Australia Railway Business

Patronage for the Melbourne metropolitan rail network decreased sharply in 2020 amid the COVID-19 outbreak. Our subsidiary reached an agreement with the State government in May 2020 on financial support to ease the effects of the pandemic.

Sydney Metro North West continued to run a full service in 2020. Although patronage was affected by COVID-19, there is no fare revenue risk according to the terms of this franchise. Service performance continued to improve throughout the year. The Sydney Metro City & Southwest project continued to move forward with milestones achieved as planned despite some restrictions on the flows of people and materials between countries as a result of COVID-19.

Growth Outside of Hong Kong

In Shenzhen, the consortium led by our wholly owned subsidiary was awarded the tender for the Shenzhen Metro Line 13 PPP project, which covers investment, construction and O&M for a period of 30 years following anticipated completion in 2023. The formal PPP contract was signed on 30 October 2020. In Chengdu, the Company set up a new company with Chengdu Rail Transit Group to explore and develop station commercial and related businesses in the city. In Hangzhou, our rolling stock maintenance company with the CRRC Hangzhou Digital Technology Co., Ltd consortium won the contracts for the rolling stock fleet overhaul for certain lines in Hangzhou and Shenzhen.

Discussions are on-going regarding potential cooperation opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area to build transport infrastructure as well as property and community projects. The Company has been involved as the Transit Oriented Development ("TOD") advisor of Dongguan Binhaiwan New Area Government for the conceptual planning of the High Speed Rail Binhaiwan Station TOD. We are also exploring opportunities for rail-related projects in other Greater Bay Area cities. Leveraging our experience, we will continue to play an active role in the integrated development and TOD of the Greater Bay Area.

In March 2021, we jointly secured the land use right for a TOD site in the south of Hangzhou West Station together with our partners. This project is a mixed-use property development comprising serviced apartment, office, retail and hotel components and has a total developable GFA of approximately 688,210 square metres. The Company has a 10% interest in the project with an equity investment of RMB350 million.

In Sweden, our subsidiary was awarded the O&M concession for the Mälartåg train service in December 2020. Our subsidiary will start running this service in December 2021 for an eight-year operating period with a one-year extension option. Currently, there are legal challenges from other bidders against the tender process.

FINANCIAL REVIEW

In addition to the above brief report of the Group's results and operations, this section discusses and analyses such results in more details.

Profit and Loss

	Year ended 31 December		Inc./(Dec.)	
HK$ million	**2020**	2019	HK$ million	%
Total Revenue	**42,541**	54,504	(11,963)	(21.9)
Recurrent Business (Loss)/Profit ζ				
EBIT				
Hong Kong Transport Operations	**(5,408)**	(591)	(4,817)	(815.1)
Hong Kong Station Commercial Businesses	**2,502**	5,122	(2,620)	(51.2)
Hong Kong Property Rental and Management Businesses	**4,185**	4,264	(79)	(1.9)
Mainland of China and International Railway, Property Rental and Management Subsidiaries	**261**	1,089	(828)	(76.0)
Other Businesses, Project Study and Business Development Expenses	**(1,949)**	(2,353)	404	17.2
Share of Profit of Associates and Joint Venture	**605**	288	317	110.1
Total Recurrent EBIT	**196**	7,819	(7,623)	(97.5)
Interest and Finance Charges	**(1,097)**	(939)	158	16.8
Income Tax	**(237)**	(1,740)	(1,503)	(86.4)
Non-controlling Interests	**12**	(160)	(172)	n/m
Recurrent Business (Loss)/Profit	**(1,126)**	**4,980**	**(6,106)**	**n/m**
Property Development Profit (Post-tax)				
Hong Kong	**5,442**	5,531	(89)	(1.6)
Mainland of China	**65**	49	16	32.7
Property Development Profit (Post-tax)	**5,507**	**5,580**	**(73)**	**(1.3)**
Underlying Business Profit ε	**4,381**	**10,560**	**(6,179)**	**(58.5)**
Investment Property Revaluation (Loss)/Gain	**(9,190)**	1,372	(10,562)	n/m
Net (Loss)/Profit Attributable to Shareholders of the Company	**(4,809)**	**11,932**	**(16,741)**	**n/m**

ζ: *Recurrent business (loss)/profit represents (loss)/profit from the Group's Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland of China and international railway, property rental and management businesses and other businesses.*

ε: *Underlying business profit represents (loss)/profit from the Group's recurrent businesses and property development businesses.*

n/m: *not meaningful*

Total Revenue

The adverse impact of the on-going COVID-19 pandemic and the deterioration of the general economic environment on the Group's businesses has been unprecedented. Total revenue of the Group in 2020 was HK$42,541 million, decreased by 21.9% when compared to 2019, mainly due to the adverse impact of the COVID-19 pandemic on fare revenue of our Hong Kong transport operations ("HKTO"), as well as decrease in rental revenue of our Hong Kong station commercial businesses ("HKSC").

Recurrent Business Loss

Various measures implemented by governmental authorities in Hong Kong and globally to address the COVID-19 pandemic have resulted in a significant reduction in domestic and international travel demand and consumer spending. Furthermore, prolonged closures of major passenger boundary crossings between Hong Kong SAR and the Mainland of China have further adversely impacted the Group's recurrent businesses. As a result, the Group reported a loss of HK$1,126 million in its recurrent businesses in 2020, as compared with a profit of HK$4,980 million in 2019.

EBIT

EBIT of HKTO decreased drastically by HK$4,817 million resulting in a loss of HK$5,408 million, mainly due to substantial reduction of 31.5% in total patronage resulting from the COVID-19 pandemic and related governmental measures such as the closure of several boundary crossings between Hong Kong SAR and the Mainland of China (including the crossings at Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations, as well as the Intercity through train control point at Hung Hom Station), social distancing, work-from-home arrangements, school closures, entry immigration controls and quarantine measures.

EBIT of the HKSC decreased by 51.2% to HK$2,502 million, mainly due to profit and loss impact of rental concessions granted to duty free shop concession holders and other station kiosks as a result of the closure of several boundary crossings between Hong Kong SAR and the Mainland of China, as well as retail tenants of station kiosks in domestic lines whose businesses have been adversely affected by reduced footfall in stations, and coupled with the significant drop in our advertising revenue.

EBIT of the Hong Kong property rental and management businesses slightly decreased by 1.9% to HK$4,185 million, mainly due to profit and loss impact of rental concessions granted to retail mall tenants, but mostly offset by profit contribution from our new shopping mall, The LOHAS, opened by phases in August and November 2020 and the remaining economic interests of Telford Plaza II and PopCorn 2 acquired in March 2020.

EBIT of our Mainland of China and international railway, property rental and management business subsidiaries have also been adversely affected but to varying degrees (with Melbourne Train being affected the most) due to the severity of COVID-19 pandemic and related governmental measures in different cities we operate, resulting in a decrease in EBIT by 76.0% to HK$261 million.

EBIT of other businesses, project study and business development expenses reported a loss of HK$1,949 million in 2020 (2019: a loss of HK$2,353 million). The loss in 2020 was mainly due to a provision of HK$1.4 billion made in respect of the additional project management cost of the Shatin to Central Link ("SCL") project in Hong Kong and the loss incurred by Ngong Ping 360 due to service suspension as a result of the COVID-19 pandemic. On the other hand, the loss in 2019 was mainly due to a provision of HK$2 billion made in respect of the Hung Hom Incidents of the SCL project.

Share of Profit of Associates and Joint Venture

Share of profit of associates and joint venture was HK$605 million in 2020, compared to a profit of HK$288 million in 2019 which included a provision of onerous contract of HK$436 million made in respect of the South Western Railway franchise agreement in the United Kingdom. If the provision in 2019 had been excluded, the share of profit in 2020 would have decreased by HK$119 million or 16.4% when compared with 2019, mainly due to the adverse financial impact of the COVID-19 pandemic on our associate in Hangzhou as well as Octopus Holdings Limited in Hong Kong, partly offset by the incremental profit contribution from our joint venture of HZL5 with full line operation since April 2020.

Property Development Profit (Post-tax)

Property development profit (post-tax) slightly decreased from HK$5,580 million in 2019 to HK$5,507 million in 2020, which was mainly derived from the share of surplus proceeds of LP6 (LOHAS Park Package 6) as well as sales of inventory units.

Investment Property Revaluation Loss

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 loss of HK$9,190 million in 2020, compared to a revaluation gain of HK$1,372 million in 2019. The revaluation loss, being a non-cash item, mainly reflected the decrease in reversionary rent as a result of the COVID-19 and the deterioration of general economic environment.

Net Loss Attributable to Shareholders of the Company

Taking into account the Group's recurrent businesses, property development businesses and investment property revaluation, the Group reported a net loss attributable to shareholders of the Company of HK$4,809 million in 2020, compared to a net profit of HK$11,932 million in 2019.

Financial Position

HK$ million	As at 31 December 2020	As at 31 December 2019	Inc./(Dec.) HK$ million	%
Net Assets	**176,981**	186,798	(9,817)	(5.3)
Total Assets	**290,574**	289,214	1,360	0.5
Total Liabilities	**113,593**	102,416	11,177	10.9
Gross Debt^	**50,340**	39,456	10,884	27.6
Net Debt-to-equity Ratio$^{\delta}$	**22.5%**	15.4%		7.1% pts

^: *Gross debt represents loans and other obligations and short-term loans.*

δ: *Net debt-to-equity ratio represents net debt of HK$39,887 million (2019: HK$28,764 million), which comprises loans and other obligations, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposit in the consolidated statement of financial position, as a percentage of the total equity of HK$176,981 million (2019: HK$186,798 million).*

Net Assets

Our financial position remains strong. The Group's net assets decreased by 5.3% from HK$186,798 million as at 31 December 2019 to HK$176,981 million as at 31 December 2020 mainly reflecting the revaluation loss of the Group's investment property portfolio.

Total Assets

Total assets increased slightly by 0.5% from HK$289,214 million to HK$290,574 million. This was mainly due to a combination of:

- increase in amounts due from related parties;
- increase in debtors and other receivables mainly due to: (i) the portion of rental concession granted yet to be amortised to the profit and loss account, and (ii) increase in property development receivables upon the recognition of the property development profit of LP6;
- increase in service concession assets in respect of KCRC systems; and partly offset by
- net decrease in investment properties as a result of the revaluation loss on our existing portfolio being partially offset by our acquisition of remaining 50% economic interests of Telford Plaza II and 30% in Popcorn 2.

Total Liabilities

Total liabilities increased by 10.9% from HK$102,416 million to HK$113,593 million. This was mainly due to a combination of:

- issuance of 10-year US$1.2 billion green bond, and net drawdown of loans and issuance of other bonds/notes;
- increase in creditors, other payables and provisions mainly due to: (i) advance cash received from property development packages, and (ii) provision of HK$1,371 million made in respect of SCL project management cost; and partly offset by
- decrease in amounts due to related parties due to lower variable annual payment as a result of revenue decrease during the year.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations and short-term loans) increased by 27.6% to HK$50,340 million as at 31 December 2020. Weighted average borrowing cost of the Group's interest-bearing borrowings was at 2.3% p.a., compared to 2.8% p.a. in 2019.

Net Debt-to-equity Ratio

Net debt-to-equity ratio increased by 7.1% points to 22.5% as at 31 December 2020 from 15.4% as at 31 December 2019 due to (i) increase in borrowings to fund the acquisition of the remaining economic interests in Telford Plaza II and PopCorn 2, capital expenditure for our Hong Kong railways and related operations as well as the net cash used in operating activities, and (ii) decrease in equity mainly due to the revaluation loss on the Group's investment property portfolio recognised.

Cash Flow

HK$ million	Year ended 31 December 2020	2019
Net Cash (Used in)/Generated from Operating Activities after Fixed and Variable Annual Payments	**(2,561)**	13,988
Net Receipts from Property Development	**8,171**	5,916
Other Net Cash Outflow from Investing Activities	**(9,326)**	(7,490)
Net Borrowing/(Repayment) of Debts, Net of Lease Rental and Interest Payment	**9,661**	(2,362)
Dividends Paid to Shareholders of the Company	**(6,808)**	(6,649)
(Decrease)/Increase in Cash, Bank Balances and Deposits#	**(872)**	**3,286**

#: *Excluding effect of exchange rate change*

Net Cash (Used in)/Generated from Operating Activities after Fixed and Variable Annual Payments

Net cash used in operating activities after fixed and variable annual payments for Hong Kong railway and related operations was HK$2,561 million, compared to net cash generated of HK$13,988 million in 2019, mainly due to decrease in operating profit resulting from the adverse impact of the COVID-19.

Net Receipts from Property Development

Net receipts from property development were HK$8,171 million, comprising mainly cash receipts from LOHAS Park packages.

Other Net Cash Outflow from Investing Activities

Other net cash outflow from investing activities was HK$9,326 million, which mainly included capital expenditure of HK$9,249 million (comprising HK$5,226 million for investments in additional assets for Hong Kong existing railways and related operations, HK$3,539 million for Hong Kong investment properties, HK$250 million for Hong Kong railway extension projects and HK$234 million for the Mainland of China and overseas subsidiaries).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Despite the challenges of the past year, MTR continued to implement ESG initiatives that contributed to the safety, environmental protection, health and wellbeing of the city it calls home. We also strove to ensure inclusion with services that are accessible to all, regardless of age or ability.

As one of the leading railway operators in the world, our priority is to provide convenient, efficient transport in an environmentally sound manner. In August 2020, we were proud to issue a new US$1.2 billion 10-year Green Bond, the largest single-tranche green bond for corporates in Asia-Pacific, to fund railway-related conservation and energy efficiency projects. During the year we also embarked upon a consultancy study that will help us develop a long-term roadmap for reducing greenhouse gas emissions; we aim to launch a comprehensive programme by 2021. We also published our Climate Change Strategy outlining our three-pronged approach to addressing this critical issue.

To ensure that MTR safeguards the best interests of its shareholders and stakeholders, the Company strives to maintain the very highest standards of corporate governance across all its businesses. Robust structures, mechanisms and management practices are in place to ensure responsible, ethical decision-making and transparency.

Safety

As a major Hong Kong transport and property conglomerate, MTR places the highest priority on the health and safety of its customers, staff and visitors. Each year we seek to make improvements and enhancements wherever possible to ensure that we are upholding industry-leading safety standards, all in accordance with our comprehensive Corporate Safety Policy and best practices.

The year under review presented considerable challenges, from the public order events that carried over from 2019 to the rapid spread of COVID-19 from early 2020 onward. Demonstrating our emphasis on health and safety as well as our keen focus on employing the latest innovations and technologies, we employed vaporised hydrogen peroxide robots to deep-clean our trains and stations. We also applied a special coating on various points of frequent passenger contact to eliminate bacteria and viruses.

To give our passengers added convenience and peace of mind, we made PPE such as face masks and hand sanitiser easily accessible by installing PPE vending machines at 14 stations. To help ensure a reliable supply of quality face masks, MTR launched a production line at an ISO-certified cleanroom at Siu Ho Wan Depot that can produce more than 300,000 masks per month. During the year under review we also optimised our station and train ventilation, filter cleaning and replacement processes in our trains, stations and shopping malls. We also placed vending machines at 20 stations for the public to conveniently pick up free COVID-19 specimen collection packs.

The number of reportable events on our heavy rail and light rail networks decreased by 45% compared to 2019. The number of reportable events per million passengers carried on our heavy rail and light rail networks continued to improve, falling to 0.58 in 2020.

Enterprise Risk Management

Perhaps no year has underscored the importance of risk management more than 2020. To cope with unprecedented challenges, MTR's business units have followed the Company's Enterprise Risk Management framework in their day-to-day operations to ensure business continuity, health and safety. The Company's risk profile, top risks and key emerging risks are regularly reviewed by the Executives and the Risk Committee and reported to the Board on a half-yearly basis. "Deep dive" reviews on selected key risk areas are conducted during the year, and risk mitigation measures are formulated or adjusted as necessary to ensure effective risk management.

COVID-19 remains a significant risk to MTR and its business operations and is likely to remain so well into 2021. In 2020, we introduced a host of initiatives to deal with the effects of the pandemic and get our operations back on track as effectively and efficiently as we can. Moving forward, we remain committed to staying abreast of the latest developments in order to control risks associated with the pandemic as much as possible and safeguard the well-being of our businesses and stakeholders.

HUMAN RESOURCES

As at 31 December 2020, MTR along with our subsidiaries employed 17,288 people in Hong Kong and 16,921 people outside Hong Kong. Our associates employed an additional 17,121 people worldwide.

Our staff are our most valuable asset, and their dedication is key to MTR's success. We provide competitive pay and benefits, short- and long-term incentive schemes, and a broad range of career development opportunities under the total reward framework to attract, retain and motivate our staff. We also recognise and reward our staff through a robust performance-based pay review mechanism as well as a variety of staff motivational schemes and awards. Our staff engagement efforts are reflected in our stable workforce, with the voluntary staff turnover rate in Hong Kong staying low at 3.4% in 2020. We provided an average of 4.8 training days per staff in Hong Kong during the year.

Amid the unprecedented challenges of COVID-19 and the weakened macro economy, our top priority is to ensure the health and safety of our staff, protect their jobs and ensure business sustainability. To safeguard our staff against the pandemic, we enhanced protective measures, initiated appropriate flexible work arrangements and organised programmes to enhance their total wellbeing. We have taken a prudent recruitment approach since early January 2020 to meet our operational needs while containing costs.

MTR ACADEMY

Despite the challenges of operating during a pandemic, the MTR Academy was still able to deliver its programmes and expertise to railway professionals and global clients from the Mainland of China, Belt and Road countries and elsewhere via online learning and virtual examinations. In September 2020, the MTR Academy also began offering full-time diploma programmes.

OUTLOOK

COVID-19 is a global phenomenon that will have long-lasting impacts. In 2020, it posed unprecedented challenges to our business and operations and adversely affected the financial performance of the Group.

At the time of writing, travel restrictions, quarantine mandates, mask-wearing orders and social distancing guidelines are still in place to varying degrees as everyone works together to contain and eliminate the spread of COVID-19. Although vaccines have started to be administered around the world, it remains unclear how the current situation will develop over the coming months. The speed and magnitude of a global economic recovery remains highly dependent on the progress made in combatting the pandemic as well as the fiscal and monetary policies of various governments.

In 2020, COVID-19 substantially impacted the financial performance of our recurrent businesses. Patronage suffered a large drop, and shopping malls, duty free shops, station kiosks and advertising were all badly affected. The pandemic also resulted in a lower revaluation of our investment property portfolio. Such effects may continue well into 2021 as a return to normalcy for our patronage, particularly among tourist customers, will not be immediate and could potentially take longer than a year. Our station commercial and shopping mall businesses will continue to face challenges in rentals following the aftermath of last year's negative rental reversions as well as in the accounting standard requirement to spread last year's rental rebates into 2021 and beyond. Our duty free business will depend completely on the timing of the re-opening of borders and the recovery of border patronage while advertising income will be dependent on economic recovery and consumer spending. The impact of COVID-19 on the asset valuation of our investment property portfolio may continue until market conditions are stabilised.

While the near term remains challenging, we have reasons to be optimistic about our medium- to long-term future. Despite the fact that our businesses suffered to varying degrees in 2020, the Company is in a solid financial position, and we continue to drive a number of projects and developments that offer strong potential.

Subject to market conditions and necessary Government approvals, we aim to tender out The Southside (also known as "Wong Chuk Hang Station Property Development") Package 6, Tung Chung Traction Substation site, Pak Shing Kok Ventilation Building site and Tung Chung East Station Package 1 (subject to our entering into a project agreement with Government) in the next 12 months or so. These packages are expected to provide about 4,800 residential units in total. Applications for pre-sale consent for The Southside Package 1 and Package 2 property development projects and The Pavilia Farm III are in progress. Depending on construction progress, we target to book development profits from Packages 7, 8 and 9 of LOHAS Park in 2021.

We look forward to the Tuen Ma Line full line opening, expected to be in the third quarter of 2021. Working under Government's RDS 2014 development framework for expanding Hong Kong's railway network, we will continue to progress the design of the Tung Chung Line Extension and Tuen Mun South Extension, and we will commence the detailed planning and design of Kwu Tung Station and the Northern Link.

We will conduct the detailed design for the Siu Ho Wan Depot site and its adjacent station, and we will explore potential sites for residential and commercial property development along existing and future railway lines.

To maintain world-class service for customers and keep cities moving, we must continue to operate safely and efficiently in the "new normal". Our new Corporate Strategy – guided by strong ESG principles to ensure sustainable and profitable operations for years to come – will play a key role in our progress moving forward. The new strategy seeks to enhance our business and profit growth in each of the three pillars: (i) attaining the full potential of our world-class service performance, cost optimisation and new revenue-generating initiatives in our Hong Kong core businesses; (ii) leveraging our competitive strengths to maintain steady growth through new products and new markets, particularly in the Mainland of China and also in our international businesses; and (iii) embracing new technologies as enablers for our existing operations and as new engines to strengthen our long-term growth.

I would like to thank Dr Peter Ewen, who retired from the Company as Engineering Director on 22 February 2021, for his contributions during his time at MTR.

In closing, I cannot emphasise enough how grateful I am for our exceptional staff, who have continued to deliver world-class service in very challenging conditions over the years, particularly in 2020. Difficult times still lie ahead, but I believe that as we keep working together to fulfil the goals set in our Corporate Strategy, our Company – and Hong Kong – will emerge from them even stronger.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 11 March 2021