CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

It has now been just over a year since I took up the role of CEO of MTR. Back then, preparing my first interim report was a relatively straightforward exercise. Today, external circumstances have made the situation very different.

During the early months of 2020, we continued to feel the impact of the public order events of last year. Then, just as we were starting to recover from these events, the coronavirus pandemic struck, which affected all areas of our business not only in Hong Kong but across our entire global footprint.

In response to the COVID-19 outbreak, we immediately took steps to ensure our trains and stations were safe for our customers by implementing a comprehensive cleaning programme throughout our network that, among other measures, included the use of specialised sanitising robots to thoroughly cleanse MTR facilities. We also provided our staff with protective equipment such as face masks and encouraged our office staff to work from home.

To ease the financial burden on the public, we offered additional fare rebates to our passengers and rental concessions to most of our tenants at stations and MTR malls. We also donated masks to people in need. At the same time, the members of our Board and Executive Directorate volunteered to donate part of their remuneration to charitable groups in the community.

During the period under review, there were other challenges as well. On 12 May 2020, Government released 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 project. Another report, concerning the Hung Hom derailment incident on 17 September 2019, was also released during the period. Both reports helped us to reflect on what we could have done better with regard to our project management and railway operations, and we have since implemented a number of measures to ensure incidents of a similar nature do not reoccur in future. Further details on the reports and our rectification actions are presented in the "Transport Operations" and "Shatin to Central Link" sections of this interim report.

Despite these challenges, we made several important achievements both in Hong Kong and internationally. Good progress continued to be made on the Shatin to Central Link project, including the opening of the Tuen Ma Line Phase 1 on 14 February 2020. Government's application for additional funding for the Shatin to Central Link project was also approved by the Finance Committee of the Legislative Council ("LegCo") on 12 June 2020. Furthermore, Hangzhou Metro Line 5 ("HZL5") achieved full line opening in April 2020.

Our service performance during the period was once again maintained at a world-class level with a 99.9% record of train service delivery and passenger journeys on-time. To continue improving our customer experience and operations, we enhanced our MTR Mobile and introduced smart asset management as part of our overall effort to incorporate the latest technology into our operations.

In our property business, we launched pre-sales of several property development projects and awarded LOHAS Park Package 12. The draft Outline Zoning Plans of the Tung Chung Traction Substation and Pak Shing Kok Ventilation Building were also gazetted in June 2020.

In our Hong Kong railway business, we were invited by Government to proceed with detailed planning and design of the Tung Chung Line Extension and Tuen Mun South Extension under the Railway Development Strategy 2014 ("RDS 2014") in April and May 2020 respectively.

Although patronage was affected significantly outside Hong Kong by COVID-19, we announced on 3 August 2020 that we had been awarded the tender for the Shenzhen Metro Line 13 ("SZL13") Public-Private-Partnership ("PPP") project for the investment in, construction of, and operations and maintenance of SZL13 for 30 years after completion. We will also continue to seek other growth opportunities beyond our core market.

Looking at our financial performance, recurrent business profit in the first six months of 2020 decreased by 83.8% to HK$433 million. Property development profit for the period increased from HK$775 million to HK$5,200 million. As a result, underlying business profit was 63.8% higher at HK$5,633 million. Including the revaluation loss on investment properties of HK$5,967 million, net loss attributable to shareholders of the Company was HK$334 million, compared to a net profit of HK$5,506 million in the same period in 2019. In response to this challenging situation, we have taken a number of cost control measures to reduce the financial damage, including a recruitment freeze and cutting of overhead expenditures. 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 how the situation develops.

The Board of Directors of the Company is of the view that the overall financial position of the Group remains sound and has declared an interim dividend of HK$0.25 per share.

CORPORATE STRATEGY

Today, the operating environment for MTR is being driven by a confluence of factors that include changing demographics, the emergence of new technologies and disruptors such as the COVID-19 pandemic. Together, they are reshaping the future of cities and mobility.

MTR has a significant role to play as cities strive to tackle and master the "new normal". Our vision is to become an internationally-recognised leading company that connects and grows communities with caring, innovative and sustainable services. To that end, we are embarking on a re-examination of our strategic direction with the aim of strengthening our existing core competitive advantages, increasing agility and developing new capabilities. This timely and ongoing review will enable us to harness opportunities in the fast-changing environment and to deliver the best possible service to the cities in which we operate.

We also seek to attain the full potential of Hong Kong's core business while maintaining the growth of our Mainland of China and International Business with new products and hubs. Technology will play an instrumental role as both an enabler and a new growth engine, through investments in rail-tech and smart mobility services.

Part of this strategic review is to more fully and more explicitly integrate Environmental, Social and Governance ("ESG") objectives into our businesses and operations to create value for all our stakeholders, fulfilling our long term fiduciary duties.

Our ESG strategy will be guided by our commitment to put people and the communities we serve first. With our scale of operation, MTR is well positioned to play an impactful role in the sustainable growth of our communities. The upcoming ESG strategy and initiatives will also leverage our DNA as an environmentally-friendly people mover, as well as a provider of caring services to millions of customers around the world every day and as an employer of 50,000 people in Hong Kong and globally through our subsidiaries and affiliates. By focusing more on how we care for the environment and our communities, we will create new opportunities and be better positioned to respond to societal needs.

Successfully implementing this ESG strategy means embedding all of these ESG principles into MTR's businesses and designing new policies and processes that reflect our values.

Underlying all of these initiatives, there will be various measures to achieve a more entrenched financial accountability of each business unit. On a wider scale, we will also work to enhance our governance and streamline our processes. A Transformation Management Office has been set up with a dedicated management team to enable and deliver this strategic transformation.

HONG KONG BUSINESSES

On account of the novel coronavirus outbreak, our businesses in Hong Kong experienced substantially reduced revenue and incurred an operating loss in our Hong Kong transport operations during the first half of the year. Nevertheless, our overall financial position remains strong as a result of our proven "Rail plus Property" business model, which in addition to our railway network includes station commercial activities, property rental and property developments over and adjacent to our railway stations and depots.

TRANSPORT OPERATIONS

HIGHLIGHTS

- Maintained world-class 99.9% train service delivery and passenger journeys on-time
- Opening of Tuen Ma Line Phase 1 in February 2020
- Total patronage at 637.3 million, decreased by 37.7% from the same period last year mainly due to COVID-19

HK$ million	Six months ended 30 June 2020	2019	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**6,234**	10,690	(41.7)
Operating Profit before Depreciation, Amortisation and Variable Annual Payment ("EBITDA")	**106**	4,346	(97.6)
Operating (Loss)/Profit before Interest and Finance Charges and after Variable Annual Payment ("EBIT")	**(2,579)**	952	n/m
EBITDA Margin (in %)	**1.7%**	40.7%	(39.0)% pts.
EBIT Margin (in %)	**(41.4)%**	8.9%	n/m

n/m: not meaningful

During the first half of 2020, total revenue from Hong Kong transport operations amounted to HK$6,234 million, a decrease of 41.7% as compared with the corresponding period in 2019. Operating loss before interest and finance charges and after the variable annual payment was HK$2,579 million. Reductions from the same period last year were mainly due to the adverse impact of the COVID-19 outbreak with lower patronage and average fare.

Patronage and Revenue

	Patronage In million: Six months ended 30 June 2020	Patronage: Inc./(Dec.) %	Revenue HK$ million: Six months ended 30 June 2020	Revenue: Inc./(Dec.) %
Hong Kong Transport Operations				
Domestic Service	**553.6**	(33.3)	**4,657**	(31.1)
Cross-boundary Service	**7.4**	(87.2)	**514**	(70.0)
High Speed Rail ("HSR")	**1.1**	(89.4)	**658**	(41.6)
Airport Express	**2.1**	(77.0)	**107**	(81.4)
Light Rail and Bus	**73.0**	(36.2)	**243**	(34.3)
Intercity	**0.1**	(91.7)	**21**	(77.9)
	637.3	(37.7)	**6,200**	(41.7)
Others			**34**	(34.6)
Total			**6,234**	(41.7)

In the first six months of 2020, patronage was heavily affected by COVID-19 owing to fewer passengers travelling on our network because of social distancing measures, including work-from-home arrangements and school closures. This resulted in a 33.3% decline in our Domestic Service patronage to 553.6 million. The impact of the pandemic led to the closure of several boundary crossings between Hong Kong and the Mainland (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 a significant decrease in patronage of Cross-boundary Service and HSR. Similarly, patronage of the Airport Express recorded a 77.0% drop due to the decline in air travellers during the period.

For the period from 1 January to 30 June 2020, total patronage of all of our rail and bus passenger services in Hong Kong decreased by 37.7% to 637.3 million, as compared to the same period in 2019. Average weekday patronage decreased by 36.1% to 3.79 million.

In response to the possible "new normal" that the COVID-19 outbreak has imposed, we have been investigating ways of stimulating ridership or adjusting train service delivery to accommodate fluctuations in demand. These include developing products that encourage travel during non-peak hours, reviewing fares and ticket promotions, and leveraging our mobile app to encourage more usage. With the drastic fall in overseas tourism, we are determining the optimal level of service for the Airport Express and looking at promotions when more air travel becomes possible. We also see opportunities to promote internal leisure travel within Hong Kong via MTR.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in the first five months of 2020 was 44.6%, as compared with 48.8% in the same period of 2019. The decrease was due mainly to the significant reduction in Cross-boundary Service and Airport Express patronage, following the COVID-19 pandemic outbreak in late January this year, with closures of several boundary crossings between Hong Kong and the Mainland as well as the reduction in air travellers. Within this total, the share of cross-harbour traffic was 65.1%, as compared with 68.2% during the same period last year. For MTR's Cross-boundary Service and HSR, our share of the cross-boundary business for the first five months of 2020 fell from 51.5% to 48.8%. Our market share to and from the airport fell from 21.8% to 16.3%.

Fare Adjustments, Promotions and Concessions

The overall adjustment rate of MTR fares for 2019/2020, in accordance with the Fare Adjustment Mechanism ("FAM"), was +3.3%. We offered a 3.3% rebate for all Octopus users on every paid journey they take on the MTR, Light Rail and MTR Bus from 30 June 2019 up to 4 April 2020, which was then further extended and translates into no actual MTR fare increase for these Octopus users.

For 2020/2021, the fare adjustment rate is +2.55% according to the FAM. In view of the Affordability Cap, there is no fare increase for 2020, and the fare adjustment rate of +2.55% for 2020/2021 will 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. At the same time, a series of promotions was implemented:

- The committed "3% Rebate for Every Octopus Trip" is enhanced to "3.3% Rebate for Every Octopus Trip" from the end of June 2020 until 1 January 2021. Under this arrangement, the actual Octopus fares paid by passengers will have remained unchanged for two consecutive years since January 2019.
- No price adjustment will be made on MTR City Saver and Tuen Mun-Nam Cheong Day Pass until 1 January 2021. The new prices will take effect from 2 January 2021.
- No price adjustment will be made for Monthly Pass Extras until December 2020. The new prices will take effect from January 2021.
- The Early Bird Discount Promotion was extended for one year from 1 June 2020 to 31 May 2021.

Under these promotions, passengers are expected to save more than HK$700 million in 2020/2021. We also continue to offer over HK$2.6 billion every year in on-going fare concessions to customers from different walks of life, including the elderly, children, eligible students as well as persons with disabilities.

Operations Performance in the first half of 2020

Service Performance Item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.5%	99.5%	**99.7%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line,Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.9%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	700,000	**7,552,621**
– East Rail Line (including Tuen Ma Line Phase 1) and West Rail Line	N/A	700,000	**9,560,898**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Tuen Ma Line Phase 1) and West Rail Line	N/A	10,500	**35,484**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line (including Tuen Ma Line Phase 1)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
– Light Rail^	N/A	N/A	**N/A**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability*	N/A	N/A	**N/A**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26 °C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27 °C for platforms and 29 °C for station concourses, except on very hot days	N/A	93.0%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**100.0%**
– Train exterior: washed every two days (on average)	N/A	99.0%	**100.0%**
Northwest transit service area bus service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within six working days	N/A	99.0%	**100.0%**

^ *Repair works on damaged Light Rail Ticket Machines are underway. Performance data will be available after completion of repair and testing works.*

* *Light Rail Platform Octopus Processor replacement works and testing are underway. Performance data will be available after completion of installation, testing and trial operations of the new processors.*

On 8 April 2020, we announced new relief measures amid COVID-19 pandemic. The relief measures include:

- 20% Rebate for Every Octopus Trip from 1 July 2020 to 1 January 2021, an enhancement over the 3.3% Rebate for Every Octopus Trip.
- A HK$100 discount was offered on MTR City Saver from 1 July 2020 until 1 January 2021.
- A HK$100 discount was offered for Monthly Pass Extras from July to December 2020.

The total revenue forgone for these relief measures will amount to about HK$1.6 billion. The Government will bear half of the total actual revenue forgone with a cap of HK$0.8 billion, while MTR Corporation will shoulder the remainder. This COVID-19 relief package is a special one-off, six-month relief measure outside of the existing FAM.

Service Performance

Although the coronavirus outbreak presented challenges from an operational perspective, we were nevertheless able to maintain a high level of service performance throughout the first six months of the year. Train service delivery and passenger journeys on-time in our heavy rail network were kept to a world-class level of 99.9%, exceeding the targets set in the Operating Agreement for MTR as well as our own more rigorous 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.

During the period, we ran more than 900,000 train trips on our heavy rail network and more than 500,000 trips on our light rail network. On heavy rail, there were five delays lasting 31 minutes or more attributable to factors within MTR's control, which was two more than that in the same period last year. We investigated the cases carefully and where appropriate implemented suitable measures to prevent future reoccurrences. No such delays were recorded for Light Rail during the period, which maintained its record from the same period last year.

The results of the investigation into the train derailment near Hung Hom Station in September 2019 were made public on 3 March 2020. The report 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 investigation panel and is taking action to prevent incidents of a similar nature in future.

Enhancing the Customer Experience

For the comfort and convenience of passengers, we have been implementing major upgrades and replacements to our existing rail network.

Greater Comfort for Passengers

For Heavy Rail, we have ordered 93 new trains, of which nine had been delivered by the end of June 2020 and are currently in the process of being tested and commissioned.

For Light Rail, we have also ordered a total of 40 new light rail vehicles. As at 30 June 2020, four new light rail vehicles had been delivered and two had been tested and commissioned in preparation for passenger service later in the year.

In order to provide a more comfortable environment for passengers and our staff, we have been replacing more than half of the chillers in our stations and depots. Up to June 2020, we had completed three out of five replacement phases, with 92 chillers replaced in total. Target completion for the remaining two phases is in 2023.

In order to increase the overall capacity of our services, we are in the process of upgrading our signalling system. The signalling upgrade for Tsuen Wan Line will now take approximately three years for completion (around 2023). During the period, work was under way on 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. More than 80% of the hardware installation work had been completed for the Kwun Tong Line as at 30 June 2020. Enabling works also began on the Tseung Kwan O Line during the period.

We 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.

Enhancing Station Facilities

In addition to carrying out major asset upgrades, we continued to make other customer experience enhancements during the first half of 2020. These included additions or improvements to station facilities such as public toilets, babycare rooms, drinking water dispensers, platform seats and mobile charging spots.

As part of our commitment to provide public toilets at all interchange stations, we opened public toilets and babycare rooms at the three new stations on the Tuen Ma Line Phase 1 in February 2020, as well as in Yau Ma Tei Station in June 2020.

Drinking water dispensers were also added at Tung Chung, Tsuen Wan, Prince Edward and Tiu Keng Leng stations, with the objective of improving passengers' travel experience while also encouraging the use of refillable bottles. As the response from customers has been very positive, we will install drinking water dispensers at a total of 18 stations across the MTR network by 2022.

We also continued to install mobile charging outlets so that our customers can stay charged and in touch throughout their journeys. In addition to the mobile charging outlets already installed in 13 stations, we installed USB charging sockets and wireless charging facilities in another 16 stations across our network. As a result, these outlets are now available at all interchange stations for customers. We are also extending our provision of free WiFi services from station hotspots to all station areas including concourses and platforms.

Focus on Technology

As the world becomes increasingly interconnected through technology, we are focusing on the development of new digital initiatives in line with our strategy to become a tech-enabled company.

Among our customer tech initiatives, we have been building up the capabilities of our mobile apps in order to provide a seamless digital experience for our customers and develop full Mobility-as-a-Service functionality. In the first half of 2020, we upgraded our all-in-one MTR Mobile with a new loyalty programme that enables customers to earn "MTR points" when using our railway and bus services and shopping in our station shops and shopping malls. We also enhanced our "Macy" chatbot service and introduced a section on MTR Mobile for providing the latest news on our transportation services and shopping malls, as well as other lifestyle information. In addition to providing a new in-app purchase functionality for "Monthly Pass Extra" in June, we made preparations to launch smart ticketing with a QR code mobile payment option. The MTR Mobile had more than 1 million active users in June 2020.

Smart asset management is another technology we have been adopting to help us improve the reliability of our railway services. To that end, we have begun installing sensors on new equipment and set up a data studio to perform maintenance analysis using Artificial Intelligence, the Internet of Things and cloud computing, with the objective of identifying potential failures and taking action before they occur. On 3 April 2020, we signed a Memorandum of Understanding with the Hong Kong Applied Science and Technology Research Institute (ASTRI) to establish a railway innovation laboratory for developing innovative solutions for smart railway development in Hong Kong.

Five robots will join the station operations team and are targeted to begin service at Kai Tak Station starting from the third quarter of 2020. These five robots will answer passenger enquiries on journey planning, check the status of our station facilities and clean stations after they close. Our maintenance team is also using an "Underframe Inspection Robot" in our Pat Heung Depot that will inform our maintenance team if any abnormalities are found.

In addition to these initiatives, we are looking at opportunities to make our projects and community planning smarter by harnessing a variety of technologies that will take MTR to the next level.

STATION COMMERCIAL BUSINESSES

HIGHLIGHTS

- Increase in number of station shops and advertising units due to the opening of Tuen Ma Line Phase 1
- By June 2020, 5G services were launched by some telecom operators at ten stations
- Closure of boundary crossings between Hong Kong and Mainland of China, resulting in the closure of Duty Free shops in our stations

HK$ million	Six months ended 30 June 2020	2019	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**1,183**	2,507	(52.8)
Advertising Revenue	**213**	606	(64.9)
Telecommunication Income	**365**	376	(2.9)
Other Station Commercial Income	**48**	66	(27.3)
Total Revenue	**1,809**	3,555	(49.1)
EBITDA	**1,549**	3,227	(52.0)
EBIT	**1,334**	2,679	(50.2)
EBITDA Margin (in %)	**85.6%**	90.8%	(5.2)% pts.
EBIT Margin (in %)	**73.7%**	75.4%	(1.7)% pts.

During the first half of the year, total revenue from all Hong Kong station commercial activities decreased by 49.1% to HK$1,809 million, mainly due to rental concessions granted to Duty Free Shops resulting from boundary closure and also concessions to shops as a result of the COVID-19 outbreak.

Rental revenue from station shops was HK$1,183 million during the period, a decline of 52.8%, mainly as a result of rental concessions granted to shops due to the closure of border stations and rental concessions granted to tenants during the COVID-19 outbreak. The total number of retail shops in our stations as of 30 June 2020 was 1,523, covering 67,195 square metres of station retail area. The increase in the number of station shops compared with the end of 2019 was mainly due to the opening of the Tuen Ma Line Phase 1. Rental reversion and the average occupancy rate in the first half of 2020 in our station kiosks were -5.4% and 98.7% respectively.

To provide relief measures for our small to medium tenants during the pandemic, we offered a half-month reduction of their rents from February to April. The amount of rental concessions for large corporations was determined on a case-by-case basis in this period. Concessions was continued to be offered in May and June to all tenants.

Revenue from advertising decreased by 64.9% to HK$213 million in the first half of the year, mainly due to lower advertising spending as a result of the drop in retail sales and tourist arrivals. As at 30 June 2020, the total number of advertising units in stations and trains was 49,502, including new advertising panels launched along the Tuen Ma Line Phase 1.

Looking at the impact of COVID-19 in our station retail business, we are considering more flexible leasing terms and enhancing the telecom infrastructure to support tenants' new offline/online retail models. In our advertising business, we have been digitalising our advertising panels and back-end system to allow for more flexible, dynamic and visually attractive media campaigns.

Revenue from our telecommunications business in the first half of 2020 decreased by 2.9% to HK$365 million. Our project to install a new commercial telecom system at 31 of our stations to create more capacity made progress during the first six months of 2020, with 22 stations completed by June. By June 2020, 5G services were launched by certain telecom operators at ten stations.

PROPERTY AND OTHER BUSINESSES

HIGHLIGHTS

- Awarded LOHAS Park Package 12 in February 2020
- Acquired the remaining interests in Telford Plaza II and PopCorn 2
- Booking of property development profit from LOHAS Park Package 6

Property Rental and Management

HK$ million	Six months ended 30 June 2020	2019	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**2,469**	2,492	(0.9)
Revenue from Property Management	**113**	143	(21.0)
Total Revenue	**2,582**	2,635	(2.0)
EBITDA	**2,203**	2,240	(1.7)
EBIT	**2,193**	2,229	(1.6)
EBITDA Margin (in %)	**85.3%**	85.0%	0.3% pt.
EBIT Margin (in %)	**84.9%**	84.6%	0.3% pt.

Property rental revenue decreased by 0.9% to HK$2,469 million in the first six months of 2020, mainly due to rental concessions granted to tenants as a result of the COVID-19 outbreak. These rental concessions granted will be amortised to the profit and loss account over the remaining lease terms of respective tenants, of which only a small portion had been charged to the profit and loss account for the six months ended 30 June 2020. The Corporation acquired the remaining interests in Telford Plaza II and PopCorn 2 shopping malls. Rental income from these new acquisitions has helped reduce the impact on revenue by COVID-19. Our shopping malls in Hong Kong recorded a negative rental reversion of 17.6% during the first six months of 2020. In the first half of 2020, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were 99.2% and 99.8% let respectively on average.

Property Development Packages Completed during the period and Awarded

Location	Developers	Type	Gross floor area (sq. m.)	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Goldin Properties Holdings Limited	Residential	69,000	December 2016	2022
Package 2	Chinachem Group	Residential	59,400	October 2018	2024
LOHAS Park Station					
LP6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
MONTARA and GRAND MONTARA	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	By phases from 2019 – 2021
SEA TO SKY	CK Asset Holdings Limited	Residential	97,000	October 2015	2021
MARINI, GRAND MARINI and OCEAN MARINI	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	By phases in 2021
Package 10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Package 11	Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	88,858	April 2019	2025
Package 12	Wheelock and Company Limited	Residential	89,290	February 2020	2026
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	2022
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2024
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Package 3	CK Asset Holdings Limited	Residential Retail	92,900 47,000	August 2018	2024
Package 4	Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited	Residential	59,300	October 2019	2025
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

\# *as a development agent for the relevant subsidiaries of KCRC*

* *excluding a bicycle park with cycle track*

^ *including a 24-hour pedestrian walkway and a covered landscape plaza*

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station	Residential	About 140,000	2020	2026
Wong Chuk Hang Station	Residential	105,900	2021	2025 – 2026

Notes

1 *Property development packages for which we are acting as development agent for the relevant subsidiaries of KCRC are not included.*

2 *These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.*

During the pandemic, we granted rental concessions to our tenants in recognition of the long-term relationships we have developed with them, with priority given to small to medium tenants. For the period from February to April 2020, we offered a half-month rental reduction to our small to medium tenants and supported large corporate tenants with rental reductions on a case-by-case basis. From May 2020 onwards, the relief measures continued based on the impact on different trade categories and this arrangement is reviewed on a monthly basis.

Overall, the pandemic has less long-term impact on many of our mall tenants offering daily necessities and services. Food and beverage outlets were affected as consumers chose food delivery services and take-aways rather than dining in. To increase mall traffic, we are collaborating with e-commerce and online merchants who are planning to open pop-up stores across our portfolio. We are also exploring the possibility of adding more entertainment and sports facilities in our malls.

With the acquisition of the remaining interests in Telford Plaza II and PopCorn 2 from New World Development Company and Chow Tai Fook Enterprises Limited in March 2020, we now hold the entire economic interests of these two shopping centres.

As at 30 June 2020, our attributable share of investment properties in Hong Kong was 230,263 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of office space and 17,764 square metres of property for other use.

At Telford Plaza II, repartitioning work on the former Piago space on the fourth and fifth floors was completed, and the shops opened progressively from May 2020 onwards.

Our property management revenue in Hong Kong decreased by 21.0% to HK$113 million in the first six months of 2020. As at 30 June 2020, 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 was HK$5,171 million, which was mainly derived from the surplus proceeds from LOHAS Park Package 6 and sales of inventory units.

During the period, pre-sales activities continued for the property development projects in LOHAS Park. As at 30 June 2020, about 94% of units of MARINI (LOHAS Park Package 9A), about 92% of units of GRAND MARINI (LOHAS Park Package 9B), about 88% of units of OCEAN MARINI (LOHAS Park Package 9C) and about 98% of the units of LP6 (LOHAS Park Package 6) had been sold. Pre-sale of SEA TO SKY (LOHAS Park Package 8) was launched in June 2020, with about 32% of the units sold.

In February 2020, LOHAS Park Package 12 was awarded to a subsidiary of Wheelock and Company Limited.

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

Other Businesses

Revenue from Ngong Ping 360 decreased by 85.3% in the first six months of 2020 to HK$36 million, reflecting a drop in visitor numbers of 85.2% to about 130,000.

Our share of profit from Octopus Holdings Limited in the first six months of 2020 decreased by 15.0% to HK$102 million, mainly due to lower transport transaction volume and lower sales of consumer products. As at 30 June 2020, more than 23,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation were 34.4 million, while average daily transaction volumes and value were 11.3 million and HK$185.6 million respectively.

GROWING OUR HONG KONG BUSINESSES

HIGHLIGHTS

- Shatin to Central Link: 99.95% of the Tai Wai to Hung Hom Section and 86.9% of the Hung Hom to Admiralty Section complete by end of June 2020
- Invitation received from Government to proceed with detailed planning and design of the Tung Chung Line Extension and Tuen Mun South Extension. The latter is an extension of Tuen Ma Line

Our key areas of growth in Hong Kong are the development of new railway lines in our home market as well as the expansion of our property portfolio. In addition to the Shatin to Central Link, which remains under construction, the seven new railway projects under RDS 2014 have the potential to increase Hong Kong's railway network by a further 35 km.

Shatin to Central Link

By 30 June 2020, we had completed 99.95% of the Tai Wai to Hung Hom Section and 86.9% of the Hung Hom to Admiralty Section of the Shatin to Central Link, a project managed by MTR on behalf of Government. When the entire 17-km Shatin to Central Link goes into operation, it will provide greater connectivity and substantially reduce travelling times across Hong Kong.

On 14 February 2020, we opened the first part of the Tai Wai to Hung Hom section, now called Tuen Ma Line Phase 1, allowing passengers on the Ma On Shan Line to travel directly to Kai Tak Station in East Kowloon district via Hin Keng Station and Diamond Hill Station. The opening of this line has been greatly welcomed by the community in the area. Average daily usage of the three stations since their opening totalled approximately 119,000 passengers up to the end of June 2020.

The full line opening of the Tuen Ma Line, where the Tuen Ma Line Phase 1 will connect to the West Rail Line via Sung Wong Toi, To Kwa Wan, Ho Man Tin and Hung Hom stations, is anticipated to be in the third quarter of 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 to meet the programme.

We are also planning to commission a new signalling system for the Shatin to Central Link and will launch new 9-car trains in preparation for the extension of the East Rail Line across Victoria Harbour to Admiralty Station. The new signalling system will improve train headway on the railway service, and the new 9-car trains will provide a more spacious and comfortable travelling environment for passengers.

On 12 May 2020, the Government released the Final Report of the COI on construction works at and near the Hung Hom Station Extension under the Shatin to Central Link. The report concluded that the relevant structures at and near the Hung Hom Station Extension are safe and fit for purpose with the completion of suitable measures. Works for the suitable measures were completed in mid-2020, and service reinstatement in Hung Hom Station has commenced.

The Company notes that in the Final Report, COI has identified a number of inadequacies in respect of the construction process (including failures in respect thereof, such as poor workmanship incidents compounded by lax supervision and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations on the Company's project management practices. Based on COI's interim report and the recommendations of the review carried out by the Capital Works Committee of the Board aided by an external consultant Turner & Townsend ("T&T") in 2018, the Company has been updating and improving a number of its project management practices over the past two years. Many of these have already been incorporated into the Company's standard practices. Out of the 38 practices recommended by T&T, 31 recommendations have been implemented, and implementation of the remaining 7 recommendations was underway. The Company noted the comments and recommendations made by the COI in the Final Report. These will be incorporated into our ongoing efforts to improve our project management and quality assurance systems for the delivery of future railway projects that will serve the people of Hong Kong.

In the meantime, we are continuing our discussions with the contractor about fulfilling their contractual responsibilities, and will be considering our legal position.

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete which was submitted to Government on 10 February 2020. The Company's submission included an additional amount of project management cost for the Company. However, Government advised the Company that Government considers there has been no material modification in respect of the Shatin to Central Link project and, therefore, Government disagrees to the inclusion of any additional project management cost in the Cost to Complete. The additional funding sought by Government and subsequently approved by the Legislative Council on 12 June 2020 did not include any additional amount of project management cost for the Company. The Board is of the view that the Company's entitlement to any additional project management cost should be resolved with Government in accordance with the terms of the relevant entrustment agreement between the Company and Government. The Company will, in the interim, continue to comply with its obligations under the agreement and meet the costs thereof, to allow the Shatin to Central Link project to progress in accordance with the latest programme. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained as far as possible.

Given the uncertainty and potential financial impact to the Company in connection with any increase in the project management fee sought by the Company in respect of the Shatin to Central Link project, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account of an amount of up to HK$1,371 million to reflect the additional cost to the Company of completing its remaining project management responsibilities in respect of the Shatin to Central Link project. The Company will continue to reassess the position on an ongoing basis.

Other New Railway Projects

The RDS 2014 was introduced as a framework for the future expansion of Hong Kong's railway network up to the year 2031. Under this strategy, seven rail projects were recommended by Government. As announced in the Chief Executive's 2019 Policy Address, Government intends to commence detailed planning and design for three of these projects: the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link (and Kwu Tung Station).

We welcomed Government's decision to invite us to proceed with the detailed planning and design of the Tung Chung Line Extension in April 2020 and Tuen Mun South Extension in May 2020. Government has also announced that these two projects will be progressed using the ownership model. The design consultancy of the Tung Chung Line Extension was awarded in June 2020, marking an important step forward on this project.

In addition, we look forward to participating in detailed planning and design for the Northern Link (including Kwu Tung Station). A proposal for an alternative underground scheme for this project was submitted to Government in May 2020.

Project proposals for the East Kowloon Line and North Island Line were also submitted. As both projects will encounter technical challenges in the alignment and surrounding interfaces, we have been working closely with Government to address their comments and are preparing supplementary information for Government as requested.

For another project, Hung Shui Kiu Station, we submitted a proposal to Government in May 2020, whereas for South Island Line (West), we are undertaking a technical study in preparation for project proposal submission by the end of 2020.

Expanding the Property Portfolio

Investment Properties

In the next few years, we will open new malls that will add around 46% to the attributable GFA of our existing retail portfolio as at 30 June 2020, bringing the total up by 152,120 square metres.

As at 30 June 2020, the construction of our new shopping mall, The LOHAS, was 90% completed, and Phase 1 of the mall will open in the near future. Our shopping centres in Tai Wai and Wong Chuk Hang are expected to open in 2023.

Residential Property Development

As at 30 June 2020, the 15 new residential property projects under development will provide about 20,000 new residential units over the next seven years.

For the Siu Ho Wan Depot site, we began detailed technical studies and continued our discussions with Government on developing 14,000 public and private housing units, community facilities and a 30,000 square metre shopping mall. There is still no assurance at this early stage whether or not it will be commercially viable.

During the period, we continued to look for other opportunities to develop property along our existing railway lines and new railway projects. To that end, we submitted and obtained agreement for the rezoning proposals for our existing Tung Chung Traction Substation in Tung Chung and Pak Shing Kok Ventilation Building in Tseung Kwan O from the Town Planning Board in May 2020. The draft Outline Zoning Plans of these two sites were gazetted in June 2020. We are also exploring sites with development potential along the Tung Chung Line Extension.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

HIGHLIGHTS

- Full line opening of HZL5 in April 2020
- Awarded the tender of SZL13 PPP project
- Signed joint venture agreement for exploration and development of station commercial and related businesses in Chengdu

Beyond our core market of Hong Kong, we have been building a growing portfolio of railway-related businesses in the Mainland of China, Macao, Europe and Australia. These businesses carried a total of about 603 million passengers and an average of about 4.0 million passengers per weekday during the first half of 2020.

During the first six months of the year, our international railway businesses, as well as those in the Mainland of China and Macao, were affected by the coronavirus outbreak. Patronage was down in all markets, although the financial impact on MTR varied depending on the business model in 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		
Six months ended 30 June HK$ million	**2020**	2019	Inc./(Dec.) %	**2020**	2019	Inc./(Dec.) %	**2020**	2019	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**753**	873	(13.7)	**9,712**	9,685	0.3	**10,465**	10,558	(0.9)
EBITDA	**119**	289	(58.8)	**190**	383	(50.4)	**309**	672	(54.0)
EBIT	**113**	282	(59.9)	**69**	278	(75.2)	**182**	560	(67.5)
EBIT (Net of Non-controlling Interests)	**113**	282	(59.9)	**46**	180	(74.4)	**159**	462	(65.6)
EBITDA Margin (in %)	**15.8%**	33.1%	(17.3)% pts.	**2.0%**	4.0%	(2.0)% pts.	**3.0%**	6.4%	(3.4)% pts.
EBIT Margin (in %)	**15.0%**	32.3%	(17.3)% pts.	**0.7%**	2.9%	(2.2)% pts.	**1.7%**	5.3%	(3.6)% pts.
Recurrent Business Profit/(Loss)	**92**	**258**	**(64.3)**	**(12)**	**82**	**n/m**	**80**	**340**	**(76.5)**
Associates and Joint Venture									
Share of EBIT	**288**	522	(44.8)	**28**	(450)	n/m	**316**	72	338.9
Share of Profit/(Loss)	**88**	**257**	**(65.8)**	**27**	**(451)**	**n/m**	**115**	**(194)**	**n/m**
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**401**	804	(50.1)	**74**	(270)	n/m	**475**	534	(11.0)
Profit Attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses)							**195**	**146**	**33.6**
– Business Development Expenses							**(53)**	(142)	(62.7)
– Arising from Recurrent Businesses (after Business Development Expenses)							**142**	**4**	**n/m**
– Arising from Mainland of China Property Development							**29**	25	16.0
– Total							**171**	**29**	**489.7**

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 64.3% to HK$92 million, mainly due to the negative impact of COVID-19 on fare revenue of Shenzhen Metro Line 4 ("SZL4") and the granting of rental concessions to our shopping mall tenants.

In our International businesses, recurrent business loss from our railway subsidiaries for the period was HK$12 million compared to a recurrent business profit of HK$82 million in the first half of 2019. This was mainly due to lower farebox revenue from Metro Trains Melbourne Pty. Ltd. because of the COVID-19 outbreak and an initial operating loss by our Operations and Maintenance ("O&M") business at Sydney Metro North West, which was partially offset by the improvement of Stockholms pendeltåg with better operating performances.

Our share of results from our associates and joint venture increased from a loss of HK$194 million to a profit of HK$115 million, mainly due to the one-off onerous contract provision made in 2019 for First MTR South Western Trains Limited of HK$436 million, partially offset by the negative impact of COVID-19 on our Hangzhou and Beijing operations.

As a result, 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$142 million in the first half of 2020 on an attributable basis, whilst in the first half of 2019 was HK$4 million (or HK$440 million if the onerous contract provision made for First MTR South Western Trains Limited was excluded).

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 Section of Beijing Metro Line 16 ("BJL16"). The average on-time performance of these four lines in the first half of 2020 was 99.9%.

Both BJL4 and the Daxing Line recorded drop in patronage as a result of the pandemic, with total ridership of about 81.0 million passenger trips and average weekday patronage of 522,000.

The first three phases of BJL14 recorded a combined passenger trips of about 52 million and average weekday patronage of 348,000 in the period.

Construction of the full BJL14 and BJL16 lines made slower progress during the first six months of 2020, and the tentative full opening date for these lines is scheduled for the end of 2021 at the earliest.

Beijing Metro Line 17 will be opened in phases, and the first phase opening of the line is targeted for the end of 2021. Our associate will lease the rolling stock over a 20-year period, with lease payments to be made in instalments after the opening of each phase.

Shenzhen

SZL4, operated by our wholly-owned subsidiary, also recorded a decline in patronage in the first half of 2020 due to COVID-19. Patronage declined by 46% to 63 million passengers, average weekday patronage dropped to 386,000, and on-time performance remained at 99.9%.

There has been no increase in fares at SZL4 since we began operating the line in 2010. In July 2020, Shenzhen Municipal Government publicised a fare adjustment framework for the Shenzhen Metro network that will take effect on 1 January 2021 for five years. The framework sets out the mechanism of fare setting and the procedures of fare adjustment. If a suitable fare increase and adjustment mechanism are not implemented soon, the long-term financial viability of this line will be impacted.

In the first half of the year, negotiations regarding the operation arrangement of the SZL4 North Extension continued in preparation for the opening of the extended section at the end of 2020. Testing and commissioning of new trains was underway.

Hangzhou

Through our associate in Hangzhou, we operate Hangzhou Metro Line 1 and the Hangzhou Metro Line 1 Extension. Patronage on these lines was affected by the pandemic during the period, dropping by 43.2% to 82 million, with an average weekday patronage of 486,000. On-time train performance continued at 99.9%.

A highlight of the period was the full line opening of the 56.2-km HZL5 in April 2020. The latter section of HZL5 added 27 new stations to the 12 stations in the initial section of HZL5 that opened in June 2019. Total patronage was 27 million in the first half of 2020, with an average weekday patronage of 164,000.

Property Businesses 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 with 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.

The Company also manages self-developed and other third-party properties in the Mainland of China, with a total managed area of approximately 406,000 square metres as at 30 June 2020. The average occupancy rates were 83% for Ginza Mall in Beijing and 71% for TIA Mall in Shenzhen during the first half of 2020.

To support the tenants of TIA Mall in Shenzhen and Ginza Mall in Beijing to survive the crisis of COVID-19 outbreak, MTR offered rental concessions from February to May 2020.

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.

We also provide Transit Oriented Development technical assistance in the Greater Bay Area to an associated company of Country Garden Group and Foshan Shunde District Metro Company Limited.

Macao Railway Business

In Macao, we operate and maintain the city's first rapid transit system, the 9.3-km Macao Light Rapid Transit Taipa Line with 11 stations. Since opening on 10 December 2019, it has been operating smoothly in general but with reduced patronage as a result of the pandemic.

European Railway Businesses

United Kingdom

In London, our wholly owned subsidiary operates the Crossrail operating concession under the TfL Rail brand.

The service between Liverpool Street Station and Shenfield has been in operation since May 2015, while the service from Paddington Station to Heathrow Airport commenced operation in May 2018. In December 2019, service commenced between Paddington Station and Reading. As the operator, we continue to support Transport for London on its phased opening, and the service will be renamed Elizabeth line upon the opening of the Central Operating Section.

Also in the UK, our associate operates the South Western Railway franchise, one of the UK's largest rail networks. The financial performance of this franchise continued to suffer for a number of reasons, and in 2019 a provision of HK$436 million representing our share of the maximum potential loss under the Franchise Agreement was made.

Both TfL Rail and South Western Railway services were substantially reduced from late March 2020 and gradually increased after lockdown measures in the UK eased. TfL Rail's financial position should be well protected in the pandemic owing to it being a concession operation without fare revenue risks, and South Western Railway was temporarily transitioned into an Emergency Measures Agreement for about six months starting March 2020.

Sweden

MTR is the largest rail operator in Sweden by passenger volume, with three rail businesses in the country: Stockholm Metro, MTRX (formerly known as "MTR Express") and the Stockholm commuter rail service ("Stockholms pendeltåg"). All of these services are managed by our wholly owned subsidiaries.

During the COVID-19 outbreak, Stockholm Metro continued to run a full service while maintaining good punctuality.

MTRX has been running a reduced service since late March due to travel restrictions from local authorities and thereby lower demand. This has seriously impacted revenue. Travel restrictions were eased mid-June and services will continue during the summer at a reduced level.

During the period, Stockholms pendeltåg continued to run a full service, with further improvements to operational and financial performance. However, our wholly owned subsidiary that operates Stockholms pendeltåg will likely remain in a loss-making position this year or so.

Australian Railway Businesses

The Melbourne metropolitan rail network, which is managed by our subsidiary, experienced reduced patronage and revenue during the first six months of 2020 owing to the COVID-19 pandemic. In May 2020, the subsidiary reached agreement with the State government for a support package for the impact due to COVID-19.

The Sydney Metro North West Line, managed by our subsidiary, continued to offer a full service during the coronavirus outbreak but with much lower patronage. We do not take on patronage revenue risk according to the terms of this franchise.

Work progress of our delivery contract for the Sydney Metro City and Southwest railway was slightly impacted owing to material and people flow restrictions between countries during COVID-19. Detailed design work has been progressing.

Growth Outside of Hong Kong

In Shenzhen, we submitted a bid for two railway services, Shenzhen Metro Line 12 and SZL13. We announced on 3 August 2020 that the consortium led by our wholly owned subsidiary was awarded the tender for the SZL13 PPP project. The project includes the investment in, construction of, and operations and maintenance of SZL13 for 30 years after completion.

The PPP project will be undertaken by a company in which our wholly owned subsidiary will have an effective interest of 83%.

The PPP project covers track laying, rolling stock and electrical and mechanical systems, including the signalling system and the automated fare collection system, with a total capital cost of approximately RMB4.91 billion to be financed by both debt and equity.

The 22.4-km SZL13 includes 16 stations and is expected to commence service in 2023.

In Chengdu, a joint-venture agreement was signed in June 2020 with Chengdu Rail Transit Group to set up a new company for exploring and developing station commercial and related businesses in Chengdu.

Our rolling stock maintenance joint venture with the CRRC Nanjing Puzhen Co., Ltd. consortium won the tender in June 2020 for the Hangzhou Metro Line 4 rolling stock overhaul project.

During the period, we continued our discussions on opportunities for building transport infrastructure and property/community building projects in the Mainland of China, in particular, the Guangdong-Hong Kong-Macao Greater Bay Area.

In Sweden, we are preparing for a potential bid submission for Sweden Mälartåg in September 2020. Our bid for the O&M of Roslagsbanan, however, was unsuccessful.

FINANCIAL REVIEW

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

Profit and Loss

HK$ million	Six months ended 30 June 2020	2019	Inc./(Dec.) HK$ million	%
Total Revenue	**21,592**	**28,272**	**(6,680)**	**(23.6)**
Recurrent Business Profit ζ				
EBIT				
Hong Kong Transport Operations	**(2,579)**	952	(3,531)	n/m
Hong Kong Station Commercial Businesses	**1,334**	2,679	(1,345)	(50.2)
Hong Kong Property Rental and Management Businesses	**2,193**	2,229	(36)	(1.6)
Mainland of China and International Railway, Property Rental and Management Subsidiaries	**182**	560	(378)	(67.5)
Others#	**(199)**	(2,107)	1,908	90.6
Share of Profit / (Loss) of Associates and Joint Venture	**217**	(74)	291	n/m
Profit before Interest, Finance Charges and Taxation	**1,148**	4,239	(3,091)	(72.9)
Interest and Finance Charges	**(537)**	(480)	57	11.9
Income Tax	**(155)**	(996)	(841)	(84.4)
Non-controlling Interests	**(23)**	(98)	(75)	(76.5)
Recurrent Business Profit	**433**	**2,665**	**(2,232)**	**(83.8)**
Property Development Profit				
Hong Kong	**5,171**	750	4,421	589.5
Mainland of China	**29**	25	4	16.0
Property Development Profit	**5,200**	**775**	**4,425**	**571.0**
Underlying Business Profit ε	**5,633**	**3,440**	**2,193**	**63.8**
Investment Property Revaluation (Loss) / Gain	**(5,967)**	2,066	(8,033)	n/m
Net (Loss) / Profit Attributable to Shareholders of the Company	**(334)**	**5,506**	**(5,840)**	**n/m**

ζ *Recurrent business profit represents 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.*

\# *Others represent other businesses, and project study and business development expenses.*

ε *Underlying business profit represents profit from the Group's recurrent businesses and property development businesses.*

n/m: not meaningful

Total Revenue

Total revenue of the Group for the six months ended 30 June 2020 was HK$21,592 million, a decrease of 23.6% when compared to the same period in 2019, mainly due to the decrease in fare revenue of our Hong Kong transport operations and the decrease in station retail rent and associated revenue of our Hong Kong Station Commercial businesses as a result of the COVID-19 pandemic and the deterioration of the general economic environment.

Recurrent Business Profit

Various measures have been implemented in Hong Kong and globally to address the outbreak of COVID-19, and these measures, coupled with the deterioration of the general economic environment, have had a significant adverse impact on the Group's recurrent businesses. The estimated total adverse financial impact of the COVID-19 pandemic on the Group's recurrent business profit for the six months ended 30 June 2020 amounted to around HK$5 billion (as measured predominantly by reference to the first half of 2019). As a result, the Group's recurrent business profit for the six months ended 30 June 2020 decreased by 83.8% to HK$433 million.

EBIT

EBIT of Hong Kong transport operations decreased by HK$3,531 million and reported a loss of HK$2,579 million, mainly due to a substantial reduction of 37.7% in total patronage resulting from the COVID-19 pandemic and related governmental measures. These measures included the closure of several boundary crossings between Hong Kong 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), travel restrictions, social distancing, work-from-home and school closure arrangements.

EBIT of the Hong Kong station commercial businesses decreased by 50.2% to HK$1,334 million, mainly due to the Group granting rental concessions to support the operators of duty free shops and some station kiosks as a result of the closure of several boundary crossings between Hong Kong and the Mainland of China, as well as the Group granting rental concessions to the retail tenants of other station kiosks, coupled with the sharp drop in our advertising revenue.

EBIT of the Hong Kong property rental and management businesses slightly decreased by 1.6% to HK$2,193 million, mainly due to rental concessions granted by the Group to our affected retail tenants. Such rental concession granted will be amortised to the profit and loss account over the remaining lease terms of the respective tenants, of which only a small portion was charged to the profit and loss account for the six months ended 30 June 2020. The decrease in EBIT was partly offset by the profit contributions brought by the Group's newly acquired remaining economic interests in Telford Plaza II and PopCorn 2 since the end of March 2020, as well as the rental growth of our investment properties in Two International Finance Centre.

Our Mainland of China and international railway, property rental and management subsidiary businesses have been adversely affected to varying degrees (with Melbourne Train being affected the most) by the COVID-19 pandemic and related governmental measures, resulting in a decrease in EBIT of 67.5% to HK$182 million.

EBIT of others (mainly including project management services performed for the HKSAR Government, Ngong Ping 360 and consultancy businesses, net of project study and business development expenses) reported a loss of HK$199 million for the six months ended 30 June 2020, compared to a loss of HK$2,107 million for the same period in 2019, which included a provision of HK$2 billion made for the Hung Hom incidents of the Shatin to Central Link ("SCL") project in Hong Kong. If the provision in 2019 had been excluded, the EBIT loss in 2020 would have increased by HK$92 million, mainly due to the revenue loss from the service suspension of Ngong Ping 360 in 2020 as a result of the COVID-19 pandemic.

Share of Profit of Associates and Joint Venture

Share of profit of associates and joint venture was HK$217 million in the six months ended 30 June 2020, compared to a loss of HK$74 million for the same period in 2019, which included a provision of an 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$145 million or 40.1%, mainly due to the financial performance of our associates in Beijing and Hangzhou, which was adversely affected by the COVID-19 pandemic.

Property Development Profit

Property development profit (post-tax) increased from HK$775 million to HK$5,200 million for the six months ended 30 June 2020, mainly derived from the share of surplus proceeds of LP6 (LOHAS Park Package 6) and sales of inventory units.

Net Loss 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 loss of HK$5,967 million for the six months ended 30 June 2020, compared to a revaluation gain of HK$2,066 million for the same period in 2019. The revaluation loss was due to the adverse impact of the COVID-19 pandemic and the deterioration of the general economic environment on rents. 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$334 million for the six months ended 30 June 2020, compared to a net profit of HK$5,506 million for the same period in 2019.

Financial Position

HK$ million	As at 30 June 2020	As at 31 December 2019	Inc./(Dec.) HK$ million	Inc./(Dec.) %
Net Assets	**180,021**	186,798	(6,777)	(3.6)
Total Assets	**287,615**	289,214	(1,599)	(0.6)
Total Liabilities	**107,594**	102,416	5,178	5.1
Gross Debt^	**41,620**	39,456	2,164	5.5
Net Debt-to-equity Ratio δ	**18.9%**	15.4%		3.5% pts.

^ *Gross debt represents loans and other obligations, short-term loans and bank overdrafts.*

δ *Net debt-to-equity ratio represents loans and other obligations, short-term loans, bank overdrafts, 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.*

Net Assets

Our financial position remained strong. The Group's net assets decreased by 3.6% from HK$186,798 million as at 31 December 2019 to HK$180,021 million as at 30 June 2020.

Total Assets

Total assets decreased slightly by 0.6% from HK$289,214 million to HK$287,615 million. This was mainly due to a combination of

- a decrease in investment properties due to the revaluation loss on our existing portfolio;
- a decrease in cash balances; and
- an increase in property development receivables upon the recognition of the property development profit of LP6.

Total Liabilities

Total liabilities increased by 5.1% from HK$102,416 million to HK$107,594 million. This was mainly due to a combination of

- an accrual for the 2019 final ordinary dividend;
- a net increase in borrowings; and
- settlement of the variable annual payment payable to KCRC and current tax paid.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations, bank overdrafts and short-term loans) increased by 5.5% to HK$41,620 million. Weighted average borrowing cost of the Group's interest-bearing borrowings for the six months ended 30 June 2020 was at 2.6% p.a., compared to 2.7% p.a. in the same period in 2019.

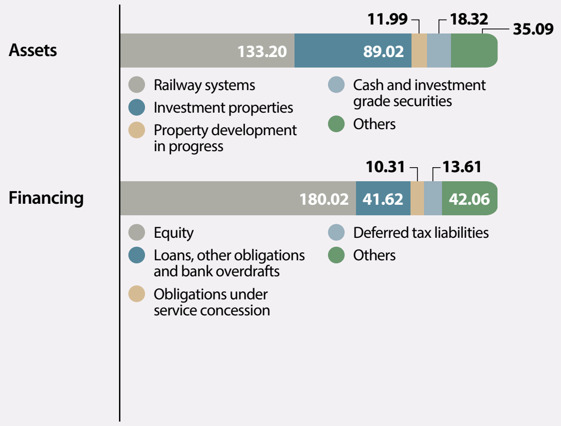
Net Debt-to-equity Ratio

Net debt-to-equity ratio was 18.9% at 30 June 2020, an increase of 3.5% points from 15.4% as at 31 December 2019, mainly due to the decrease in cash balances and the increase in borrowings as a result of the cash paid for the acquisition of the remaining 50% economic interests in Telford Plaza II and 30% in PopCorn 2, payments for capital expenditure of our Hong Kong existing railways and related operations, as well as net cash used in operating activities after the variable annual payment.

Simplified Consolidated Statement of Financial Position

As at 30 June 2020

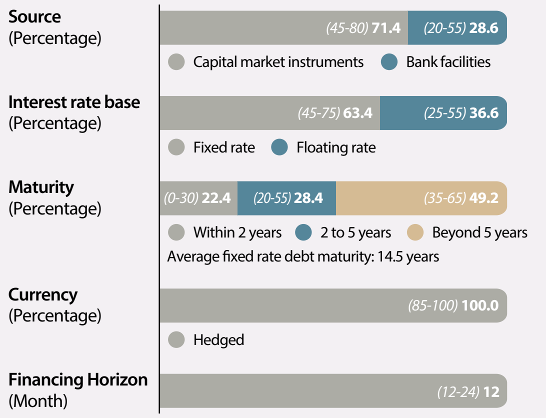
(HK$ billion)



Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a prudent and well-balanced debt portfolio.

(Preferred Financing Model) vs. **Actual debt profile**
As at 30 June 2020



Cash Flow

HK$ million	Six months ended 30 June 2020	2019
Net Cash (Used in) / Generated from Operating Activities after Variable Annual Payment	**(1,881)**	7,738
Net Receipts from Property Development	**3,323**	4,223
Other Net Cash Outflow from Investing Activities	**(6,120)**	(3,860)
Net Drawdown / (Repayment) of Debts, Net of Interest Payment	**1,828**	(4,403)
(Decrease) / Increase in Cash, Bank Balances and Deposits#	**(2,883)**	**3,649**

Excluding effect of exchange rate change

Net Cash Used in Operating Activities after Variable Annual Payment

Net cash used in operating activities after the variable annual payment for Hong Kong railway and related operations was HK$1,881 million for the six months ended 30 June 2020, compared to net cash generated of HK$7,738 million for the same period in 2019, mainly due to decrease in operating profit and increase in tax payments in the first half of 2020 resulting from the timing difference for 2019 provisional tax payments.

Net Receipts from Property Development

Net receipts from property development were HK$3,323 million, comprising mainly cash receipts from LOHAS Park packages.

Other Net Cash Outflow from Investing Activities

Other net cash outflow from investment activities was HK$6,120 million, which mainly included capital expenditure of HK$6,306 million (comprising HK$3,285 million for Hong Kong investment properties, HK$2,805 million for investments in additional assets for Hong Kong existing railways and related operations, HK$77 million for Hong Kong railway extension projects and HK$139 million for the Mainland of China and overseas subsidiaries).

Financing Activities

The global economies and markets experienced substantial turbulence in the first half of 2020. Lockdowns and social distancing, aiming at slowing down the spread of the COVID-19, adversely affected many business sectors. In response, the US Federal Reserve cut the range of the federal funds target rate twice in March by a total of 1.50 percentage points down to 0.00% – 0.25% p.a. The 3-month USD-LIBOR correspondingly fell from 1.91% p.a. at the start of the year to 0.30% p.a. at the end of June. While HKD short term interest rates remained higher than the USD rates, significant fund flows into the territory since middle of April reduced some of the interest rate differential, with 3-month HKD-HIBOR falling from 2.43% p.a. at the start of the year down to 0.78% p.a. at the end of June.

Major central banks also announced substantial quantitative easing measures, injecting ample liquidity into the market. Longer term USD and HKD rates both fell substantially. The 10-year US Treasury fell from 1.92% p.a. at the start of the year to 0.66% p.a. by end of June, surpassing the last all-time low of 1.36% p.a. set in July 2016. Similarly, the 10-year HKD swap rate also fell below the last all-time low of 1.27% p.a. seen in November 2012, moving from 2.04% p.a. beginning January to 1.04% p.a. by end of June.

The Company started the year carrying out financing activities with shorter tenor aiming at lowering the overall borrowing cost. With the business climate changing sharply by the middle of March, the Company started to focus more on financing facilities with drawdown flexibility and longer tenor. Total new financing of HK$16.5 billion was arranged, including HK$4.2 billion of medium term notes ("MTN") and HK$12.3 billion of bank loans. Notably, a HK$500 million 35-year green MTN was issued amongst the total of HK$4.5 billion of financing arranged under the Green Finance Framework where the proceeds are earmarked for eligible green projects. As at end of June 2020, the Group's undrawn committed facilities amounted to HK$8,504 million.

The weighted average cost of the Group's interest bearing borrowings over the first six months was 2.6% p.a., as compared to 2.7% p.a. for the same period last year. As at the end of June, around 63.4% of the Group's borrowings were fixed rate borrowings with an average interest rate of 2.8% p.a. and maturity of 14.5 years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

MTR attaches great importance to ESG. The review of our Corporate Strategy outlined earlier will continue to guide our efforts to grow our business. With a keen focus on being green and compassionate, we understand that our environmental and social goals will not only determine how we conduct and sustain our business. They will also help us to maintain our reputation as a responsible business that connects communities and betters the lives of our passengers, customers and employees.

At MTR, we have been looking into current trends in sustainability and adjusting our ESG strategy accordingly. These adjustments include promoting low-carbon transport, reducing congestion and providing better access to multi-modal forms of transit, as well as ensuring greater diversity in our workforce. Beyond this, we encourage every part of our business to be conscious of ESG. In our heavy rail network, for example, we have set targets to reduce electricity consumption per passenger-km by 21% by 2020 as compared with 2008. In our investment property portfolio, we have set targets to reduce energy use by 12% in 2023 as compared with 2013.

We also understand the importance of engaging our stakeholders. We have introduced various engagement activities that connect us with the communities we serve and support the changing needs of society for the benefit of young people, children, the elderly and vulnerable social groups. In addition, we 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.

Safety First

Safety, which is always our highest priority, is a key element of our ESG strategy. We ensure a safe and healthy environment by cultivating a safety-first culture, promoting continuous improvement, and engaging and educating our stakeholders on the requirements of our Corporate Safety Policy.

For the safety of our passengers, we stepped up our regular cleaning routine soon after the first case of novel coronavirus was recorded in Hong Kong in order to minimise the risk of infection on our trains, in our stations, shopping malls and other premises. We also introduced a sophisticated new vaporised hydrogen peroxide robot to increase our disinfection of stations and trains, especially in small gaps that are normally difficult to reach. We applied a Photo Catalyst "Nano Silver-Titanium Dioxide Coating" to kill a wide range of viruses and bacteria on surfaces that passengers commonly touch, such as grab poles and straphangers. Furthermore, we enhanced ventilation and filter cleaning and replacement for trains and stations, as well as in our shopping malls.

In order to gain the public's confidence, we have been implementing other hygiene measures, such as installing sensor lift buttons that do not need to be touched. Our objective is to demonstrate that MTR cares for the health of our customers and, by so doing, make hygiene a competitive advantage for the Company.

In terms of the number of reportable incidents on our heavy rail and light rail networks during the first half of 2020, these have been reduced by 36% as compared with the same period in 2019.

Enterprise Risk Management

On an ongoing basis, business units across the Company follow the Company's Enterprise Risk Management framework that underpins their day-to-day business activities. Our business by its very nature is subject to a variety of risks and uncertainties, many of which may change over time, as well as new risks that might arise. Over the past six months, the COVID-19 pandemic has emerged as a more significant key risk that is being managed by the Company. At this point, the scale and duration of COVID-19's impact remains uncertain. Various mitigation measures and controls have been implemented, and the Company will continue to closely monitor this risk as part of the Company's enterprise risk profile and will develop further mitigation measures as required.

HUMAN RESOURCES

As at 30 June 2020, MTR and its subsidiaries employed 17,569 people in Hong Kong and 16,508 people outside of Hong Kong, while our affiliates employed an additional 16,631 people in and outside of Hong Kong.

During the first six months of the year, we implemented various initiatives to enhance talent acquisition, staff engagement, motivation and talent development. Our efforts to engage and develop our colleagues are reflected in our stable workforce, with the voluntary staff turnover rate in Hong Kong staying low at 3.8% during the first half of the year. We provided an average of 2.5 training days per staff in Hong Kong during the period.

The worldwide impact of COVID-19 posed unprecedented challenges to the Company's business performance during the period. As a responsible employer, we believe it is important to protect jobs and to ensure business sustainability in the midst of this crisis. To safeguard our colleagues against the COVID-19 pandemic, we proactively enhanced protective measures for colleagues and initiated appropriate flexible work arrangements.

As part of our commitment to promote total well-being, we launched Well-being Leave and Flexible Benefits On-line Platform in January and March 2020 respectively.

MTR ACADEMY

During the first six months of 2020, the MTR Academy continued to offer high quality programmes that bring MTR's railway management and engineering expertise to the Mainland of China and Belt and Road countries, as well as accredited programmes and short courses for the next generation of railway professionals. Programmes were provided during the novel coronavirus outbreak through online teaching and virtual examination rooms rather than in face-to-face classroom settings.

OUTLOOK

For MTR, and Hong Kong as a whole, the past six months have been exceptionally challenging. As a result of the aftermath of the public order events from last year and the advent of the COVID-19 pandemic, our railway operations, shopping malls, station retail rental and advertising revenue were all affected in ways that go beyond their financial implications. The estimated total financial impact of the COVID-19 outbreak in the first half of 2020 amounted to around HK$5 billion on the net profit of the Group's recurrent businesses (as measured predominantly by reference to the first half of 2019). 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. The investment property revaluation loss of HK$5,967 million recorded in the first half was mainly attributable to COVID-19, and the asset value of our investment property portfolio may be further affected as market conditions change.

At the same time, I am deeply proud of our staff who have persevered through these most difficult times to continue providing the world-class service that our passengers and customers have come to expect of us.

Aside from these challenges, we learned some hard lessons about the way we manage our projects and run our railways. We have since taken steps to improve our project management and the maintenance of our railway following a number of projects and railway incidents in the last few years.

On a brighter note, we successfully opened the Tuen Ma Line Phase 1 and received official invitations to proceed with the detailed design and planning of two new railway projects under RDS 2014. We also look forward to participating in more property development projects, such as new shopping malls and residential developments.

In addition, subject to market conditions, we will be inviting tenders for three property development packages from now till the end of March next year, which will provide a total of around 4,350 residential units. Depending on market conditions, we currently expect to conduct pre-sales of LOHAS Park Package 10 and Tai Wai Station in the coming months.

While we will likely continue to encounter challenges during the remainder of the year, particularly if we see a resurgence of COVID-19 cases, I can assure you that MTR is financially sustainable and ready to continue providing railway services that are among the most reliable and efficient in the world.

As far as growth opportunities outside Hong Kong are concerned, we will continue to explore and compete in these markets. In August, our wholly owned subsidiary, MTR Consulting (Shenzhen) Co. Ltd., took the lead in a partnership with China Railway Electrification Bureau (Group) Co., Ltd, was awarded the tender for SZL13. However, we are still at heart a Hong Kong company, and Hong Kong will remain our core market for well into the foreseeable future.

I look forward to working with our hard-working colleagues and members of the Board during the remaining months of 2020 to keep Hong Kong and all the cities that we serve moving forward. Please stay safe, healthy and hopeful.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 6 August 2020