新聞稿

Press Release

PR019/20
5 March 2020

MTR CORPORATION LIMITED
香港鐵路有限公司

(the "Company")
(Incorporated in Hong Kong with limited liability)
(Stock code: 66)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

INSIDE INFORMATION

EFFECT ON THE GROUP OF COVID-19 AND HONG KONG PUBLIC ORDER EVENTS

RESULTS

HK$ million	Year ended 31 December 2019	2018	Change
Total revenue	54,504	53,930	+1.1%
Recurrent business profit	4,980	9,020	-44.8%
Underlying business profit	10,560	11,263	-6.2%
Net profit attributable to shareholders of the Company	11,932	16,008	-25.5%

- Excluding adverse impact of public order events in Hong Kong and provisions for Shatin to Central Link project in Hong Kong and South Western Railway in the United Kingdom, recurrent and underlying business profits would have increased by 7.7% and 35.8% respectively
- Final ordinary dividend of HK$0.98 per share recommended. Total ordinary dividend for the year of HK$1.23 per share, representing an increase of 2.5%

HIGHLIGHTS

Hong Kong Businesses

- Revenue from transport operations increased by 2.3%, mainly due to full year impact of High Speed Rail ("HSR") launched in September 2018, which offset the adverse impact from public order events. Total patronage dropped 6.4%, with 2.5% growth in first half and 14.8% drop in second half
- Train service delivery and passenger journeys on-time in our heavy rail remained world-class level of 99.9%, excluding effects of public and external events
- Operations of the first phase of Tuen Ma Line with three stations, being part of Shatin to Central Link ("SCL"), commenced successfully on 14 February 2020. SCL Cost to Complete was submitted to HKSAR Government on 11 February 2020 and we are currently addressing the project management cost with HKSAR Government
- Revenue from station commercial and property rental businesses increased by 5.0%, mainly due to full year impact of HSR and rental growth, which more than offset the adverse impact from public order events mainly relating to rental concessions granted
- Property development profit of HK$5.5 billion mainly derived from MALIBU (LOHAS Park Package 5) and The LOHAS (shopping mall of LOHAS Park Package 7). Two new property packages awarded in 2019 and one awarded in 2020

HIGHLIGHTS *(continued)*

Mainland of China & International Businesses

- Four new lines or sections commenced operations in Hangzhou, Macao, Sydney and London
- Two new concessions won: Beijing Metro Line 17 Operations and Maintenance concession, and an extension of the existing contract on Sydney Metro to City & Southwest
- Provision of onerous contract (HK$436 million) was made for South Western Railway in the United Kingdom

Outlook

- Outlook for global and local economy expected to be challenging, with many uncertainties, such as the slower growth in major economies, the global geopolitical situation, ongoing local public order events in Hong Kong and the COVID-19 outbreak
- Profit booking from LOHAS Park Package 6 is dependent on construction progress. In the next 12 months or so, subject to market conditions, we aim to tender out three property development packages

Effect on the Group of COVID-19 and Hong Kong Public Order Events

- In the midst of these uncertainties, particularly the recent COVID-19 outbreak, many of our businesses are being significantly affected. Based on preliminary unaudited internal management accounts, the estimated total financial impact of the COVID-19 outbreak and aftermath of the Hong Kong public order events for the first two months of 2020 amounted to around HK$1.3 billion on net profit of the Group's recurrent businesses. The impact of the COVID-19 outbreak on our businesses 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. We have taken a number of cost control measures to mitigate the financial impact of this challenging situation

The Directors of the Company are pleased to announce the audited results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2019 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK$ MILLION)

	Year ended 31 December	
	2019	2018
Revenue from Hong Kong transport operations	**19,938**	19,490
Revenue from Hong Kong station commercial businesses	**6,799**	6,458
Revenue from Hong Kong property rental and management businesses	**5,137**	5,055
Revenue from Mainland of China and international railway, property rental and management subsidiaries	**21,085**	20,877
Revenue from other businesses	**1,545**	1,990
	54,504	53,870
Revenue from Mainland of China property development	**-**	60
	54,504	53,930
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(6,489)**	(5,847)
- Maintenance and related works	**(2,662)**	(1,638)

	Year ended 31 December	
	2019	2018
- Energy and utilities	**(1,841)**	(1,670)
- General and administration expenses	**(1,209)**	(769)
- Railway support services	**(630)**	(380)
- Stores and spares consumed	**(613)**	(559)
- Government rent and rates	**(256)**	(117)
- Other expenses	**(329)**	(339)
	(14,029)	(11,319)
Expenses relating to Hong Kong station commercial businesses	**(680)**	(567)
Expenses relating to Hong Kong property rental and management businesses	**(851)**	(813)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	**(19,760)**	(20,001)
Expenses relating to other businesses	**(3,557)**	(2,004)
Project study and business development expenses	**(276)**	(323)
	(39,153)	(35,027)
Expenses relating to Mainland of China property development	**(25)**	(35)
Operating expenses before depreciation, amortisation and variable annual payment	**(39,178)**	(35,062)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**15,351**	18,843
- Arising from Mainland of China property development	**(25)**	25
	15,326	18,868
Profit on Hong Kong property development	**5,707**	2,574
Operating profit before depreciation, amortisation and variable annual payment	**21,033**	21,442
Depreciation and amortisation	**(5,237)**	(4,985)
Variable annual payment	**(2,583)**	(2,305)
Share of profit or loss of associates and joint venture	**288**	658
Profit before interest, finance charges and taxation	**13,501**	14,810
Interest and finance charges	**(859)**	(1,074)
Investment property revaluation	**1,372**	4,745
Profit before taxation	**14,014**	18,481
Income tax	**(1,922)**	(2,325)
Profit for the year	**12,092**	16,156
Attributable to:		
- Shareholders of the Company	**11,932**	16,008
- Non-controlling interests	**160**	148
Profit for the year	**12,092**	16,156
Profit for the year attributable to shareholders of the Company:		
- Arising from recurrent businesses	**4,980**	9,020
- Arising from property development	**5,580**	2,243

	Year ended 31 December	
	2019	2018
- Arising from underlying businesses	**10,560**	11,263
- Arising from investment property revaluation	**1,372**	4,745
	11,932	16,008
Earnings per share:		
- Basic	**HK$1.94**	HK$2.64
- Diluted	**HK$1.94**	HK$2.64

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$ MILLION)

	Year ended 31 December	
	2019	2018
Profit for the year	**12,092**	16,156
Other comprehensive income for the year (after taxation and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied land and buildings	**121**	519
- Remeasurement of net liability of defined benefit schemes	**730**	(348)
	851	171
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of subsidiaries, associates and joint venture outside Hong Kong	**(344)**	(761)
- non-controlling interests	**(15)**	(22)
- Cash flow hedges: net movement in hedging reserve	**244**	(27)
	(115)	(810)
	736	(639)
Total comprehensive income for the year	**12,828**	15,517
Attributable to:		
- Shareholders of the Company	**12,683**	15,391
- Non-controlling interests	**145**	126
Total comprehensive income for the year	**12,828**	15,517

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$ MILLION)

	As at 31 December 2019	As at 31 December 2018
Assets		
Fixed assets		
- Investment properties	**91,712**	82,676
- Other property, plant and equipment	**102,632**	102,776
- Service concession assets	**31,261**	30,473
	225,605	215,925
Goodwill and property management rights	**77**	84
Property development in progress	**12,022**	14,840
Deferred expenditure	**1,948**	1,878
Interests in associates and joint venture	**10,359**	8,756
Deferred tax assets	**134**	121
Investments in securities	**386**	294
Properties held for sale	**1,245**	1,369
Derivative financial assets	**198**	61
Stores and spares	**1,844**	1,673
Debtors and other receivables	**11,169**	9,576
Amounts due from related parties	**3,041**	2,088
Cash, bank balances and deposits	**21,186**	18,022
	289,214	274,687
Liabilities		
Short-term loans	**3,371**	4,424
Creditors, other payables and provisions	**33,315**	25,947
Current taxation	**2,024**	1,161
Amounts due to related parties	**2,990**	2,676
Loans and other obligations	**36,085**	35,781
Obligations under service concession	**10,350**	10,409
Derivative financial liabilities	**408**	545
Loans from holders of non-controlling interests	**144**	146
Deferred tax liabilities	**13,729**	12,979
	102,416	94,068
Net assets	**186,798**	180,619
Capital and reserves		
Share capital	**58,804**	57,970
Shares held for Executive Share Incentive Scheme	**(263)**	(265)
Other reserves	**128,065**	122,742
Total equity attributable to shareholders of the Company	**186,606**	180,447
Non-controlling interests	**192**	172
Total equity	**186,798**	180,619

Notes: -

1. AUDITOR'S REPORT

The results for the year ended 31 December 2019 have been audited in accordance with Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Group's auditor, KPMG. Unmodified auditor's report of KPMG is included in the annual report to be sent to shareholders. The results have also been reviewed by the Group's Audit Committee.

The financial figures in respect of the Group's consolidated statement of financial position, consolidated profit and loss account and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019, as set out in the preliminary announcement, have been compared by KPMG to the amounts set out in the Group's audited consolidated accounts for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the auditor on this announcement.

2. BASIS OF PREPARATION

The preliminary announcement of the Company's annual results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It was authorised for issue on 5 March 2020.

The financial information relating to the financial years ended 31 December 2019 and 2018 included in this preliminary announcement of the annual results does not constitute the Company's statutory annual consolidated accounts for those years but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the accounts for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the accounts for the year ended 31 December 2019 in due course.

- The Company's auditor, KPMG, has reported on those consolidated accounts of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The consolidated accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the annual report.

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. The lessor accounting requirements are brought forward from HKAS 17 and are substantially unchanged.

The Group has applied HKFRS 16 as from 1 January 2019. At initial application, the Group has elected a) to use the modified retrospective approach; b) to apply the recognition exemption for operating leases with a remaining lease term of less than 12 months from 1 January 2019; and c) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group applies the new definition of a lease in HKFRS 16 to contracts that were effective as at 1 January 2019. For lease liabilities, at the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases at the present value of the remaining lease payments, discounted using its incremental borrowing rates at 1 January 2019. The weighted average rate applied was 4.5%. For contracts entered into before 1 January 2019 which are or contain leases, the Group recognised right-of-use assets as if HKFRS 16 had always been applied since the commencement date of the leases, other than discounting using the relevant borrowing rate at 1 January 2019. As a result, any difference between the right-of-use asset recognised, the lease liability and related net deferred tax, is recognised as an adjustment to the opening balance of equity at 1 January 2019.

Comparative information has not been restated and continue to be reported under HKAS 17. The difference between the amount of operating lease commitments as at 31 December 2018 as disclosed in the Group's 2018 consolidated accounts and the amount of lease liabilities initially recognised at 1 January 2019 mainly related to the commitments of those arrangements which are not leases under HKFRS 16, as well as the discounting effect of lease payments.

Upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets under "other property, plant and equipment" and "investment properties" of HK$491 million and HK$361 million respectively, lease liabilities under "loans and other obligations" of HK$865 million and related net deferred tax assets of HK$5 million, with the net difference of HK$8 million being recognised as a decrease in the opening balance of "retained profits", on leases previously classified as operating leases.

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the classification for the lease liability. Accordingly, instead of "finance leases" under "loans and other obligations", the amount of HK$450 million is included within "lease liabilities" under "loans and other obligations". There is no impact on the classification and balance for the related leased asset and equity.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. RETAINED PROFITS

The movements of the retained profits during the years ended 31 December 2019 and 2018 are as follows:

HK$ Million	
Balance as at 1 January 2019, as previously reported	**119,599**
Effect of adoption of HKFRS 16 (net of tax)	**(8)**
Balance as at 1 January 2019, as restated	**119,591**
Profit for the year attributable to shareholders of the Company	**11,932**
Other comprehensive income for the year attributable to shareholders of the Company	**730**

HK$ Million	
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	**(2)**
Dividends declared and approved, net of scrip dividend for shares held for Executive Share Incentive Scheme	**(7,371)**
Balance as at 31 December 2019	**124,880**

HK$ Million	
Balance as at 1 January 2018	110,697
Profit for the year attributable to shareholders of the Company	16,008
Other comprehensive income for the year attributable to shareholders of the Company	(348)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	(9)
Dividends declared and approved, net of scrip dividend for shares held for Executive Share Incentive Scheme	(6,749)
Balance as at 31 December 2018	119,599

4. PROFIT ON HONG KONG PROPERTY DEVELOPMENT

Profit on Hong Kong property development comprises:

HK$ Million	Year ended 31 December **2019**	2018
Share of surplus and interest in unsold properties from property development	**4,376**	2,480
Income from receipt of properties for investment purpose	**1,211**	-
Agency fee and other income from West Rail property development	**182**	139
Overheads and miscellaneous studies	**(62)**	(45)
	5,707	2,574

During the year ended 31 December 2019, profits attributable to joint operations of HK$5,587 million (2018: HK$2,480 million) were recognised.

5. INCOME TAX

HK$ Million	Year ended 31 December **2019**	2018
Current tax		
- Hong Kong Profits Tax	**1,191**	1,933
- Tax outside Hong Kong	**264**	325
	1,455	2,258
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(71)**	(69)
	1,384	2,189
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**(1)**	(102)
- depreciation allowances in excess of related depreciation	**620**	228
- revaluation of properties	**(5)**	-
- provisions and others	**(76)**	10

HK$ Million	Year ended 31 December 2019	2018
	538	136
Income tax in the consolidated profit and loss account	**1,922**	2,325
Share of income tax expense of associates and joint venture	**342**	270

The provision for Hong Kong Profits Tax for the year ended 31 December 2019 is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong. Under the two-tiered Profits Tax rate regime, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated on the same basis in 2019 and 2018.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2019, Land Appreciation Tax of HK$nil million (2018: HK$30 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2018: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Details of the tax reserve certificates purchased by the Company are set out in note 11A to this announcement.

6. DIVIDEND

The Board has recommended to pay a final dividend of HK$0.98 per share and proposes that a scrip dividend option will be offered to all shareholders of the Company (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). Subject to the approval of the shareholders at the Company's forthcoming Annual General Meeting, the proposed 2019 final dividend, with a scrip dividend option, is expected to be distributed on 16 July 2020 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 29 May 2020.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year ended 31 December 2019 of HK$11,932 million (2018: HK$16,008 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year amounting to 6,142,546,733 (2018: 6,056,590,679).

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the year ended 31 December 2019 of HK$11,932 million (2018: HK$16,008 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme amounting to 6,150,524,696 (2018: 6,065,901,819).

Both basic and diluted earnings per share would have been HK$1.72 (2018: HK$1.86), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$10,560 million (2018: HK$11,263 million).

8. SEGMENTAL INFORMATION

The Group's businesses consist of (i) recurrent businesses (comprising 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) and (ii) property development businesses (together with recurrent businesses referred to as underlying businesses).

The Group manages its businesses by the various business executive committees. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments:

(i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.

(ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.

(iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.

(iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.

(v) Mainland of China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.

(vi) Mainland of China property development: Property development activities in the Mainland of China.

(vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the Government of the Hong Kong Special Administrative Region (the "HKSAR Government").

The results of the reportable segments and reconciliation to the corresponding consolidated totals in the accounts are shown below:

HK$ Million	Revenue Year ended 31 December 2019	2018	Contribution to profit Year ended 31 December 2019	2018
Hong Kong transport operations	**19,938**	19,490	**(591)**	1,985
Hong Kong station commercial businesses	**6,799**	6,458	**5,122**	5,025
Hong Kong property rental and management businesses	**5,137**	5,055	**4,264**	4,225
Mainland of China and international railway, property rental and management businesses	**21,085**	20,877	**1,089**	722
Mainland of China property development	**-**	60	**(25)**	25
Other businesses	**1,545**	1,990	**(2,077)**	(81)
	54,504	53,930	**7,782**	11,901
Hong Kong property development			**5,707**	2,574
Project study and business development expenses			**(276)**	(323)
Share of profit or loss of associates and joint venture			**288**	658
Profit before interest, finance charges and taxation			**13,501**	14,810
Interest and finance charges			**(859)**	(1,074)
Investment property revaluation			**1,372**	4,745
Income tax			**(1,922)**	(2,325)
Profit for the year			**12,092**	16,156

HK$ Million	Assets As at 31 December 2019	2018	Liabilities As at 31 December 2019	2018
Hong Kong transport operations	**127,361**	125,834	**21,871**	21,368
Hong Kong station commercial businesses	**2,910**	2,634	**2,126**	2,270
Hong Kong property rental and management businesses	**91,597**	82,844	**2,379**	2,278
Mainland of China and international railway, property rental and management businesses	**25,615**	22,064	**9,622**	7,818
Mainland of China property development	**4,770**	4,821	**864**	920
Other businesses	**5,502**	5,314	**3,162**	2,117
Hong Kong property development	**15,906**	17,982	**10,434**	5,498
	273,661	261,493	**50,458**	42,269
Unallocated assets/liabilities	**15,553**	13,194	**51,958**	51,799
Total	**289,214**	274,687	**102,416**	94,068

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, tax reserve certificates, derivative financial assets and liabilities, interest-bearing loans and borrowings, current taxation as well as deferred tax liabilities.

For the year ended 31 December 2019, revenue from one (2018: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 14.47% (2018: 13.76%) of the Group's total revenue was attributable to this customer.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, goodwill and property management rights, property development in progress, deferred expenditure and interests in associates and joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, goodwill and property management rights and the location of operation in the case of interests in associates and joint venture.

	Revenue from external customers Year ended 31 December		**Specified non-current assets As at 31 December**	
HK$ Million	**2019**	2018	**2019**	2018
Hong Kong SAR (place of domicile)	**33,357**	32,935	**233,019**	226,282
Australia	**12,305**	12,746	**941**	446
Mainland of China and Macao SAR	**1,934**	1,568	**15,155**	13,965
Sweden	**4,862**	4,891	**786**	699
United Kingdom	**2,046**	1,790	**110**	91
	21,147	20,995	**16,992**	15,201
	54,504	53,930	**250,011**	241,483

9. RAILWAY CONSTRUCTION PROJECTS

Island Line Extension Project

The Company and the HKSAR Government entered into Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the Island Line Extension to the Western District. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism. The timeframe for the repayment mechanism was extended for a period ended on or before 30 June 2019 pursuant to various supplementary agreements between the Company and the HKSAR Government. During the year ended 31 December 2019, the Company has made a final repayment to the HKSAR Government with a principal of HK$114 million and interest of HK$59 million under the repayment mechanism (2018: HK$nil).

10. RAILWAY CONSTRUCTION PROJECTS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

A. HONG KONG SECTION OF THE GUANGZHOU-SHENZHEN-HONG KONG EXPRESS RAIL LINK ("High Speed Rail" or "HSR") PROJECT

(a) HSR Preliminary Entrustment Agreement:

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the HSR (the "HSR Preliminary Entrustment Agreement"). Pursuant to the HSR Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

(b) HSR Entrustment Agreement:

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "HSR Entrustment Agreement"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "HSR Project Management Fee") (subsequent amendments to these arrangements are described below). As at 31 December 2019 and up to the date of the annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "Liability Cap"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (as defined hereunder) (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 10A(c)(iv) below), up to the date of the annual report, no claim has been received from the HKSAR Government.

In April 2014, the Company announced that the construction period for the HSR project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017.

On 30 June 2015, the Company reported to the HKSAR Government that the Company estimated:

- the HSR being completed in the third quarter of 2018 (including programme contingency of six months) (the "HSR Revised Programme"); and
- the total project cost of HK$85.3 billion (including contingency), based on the HSR Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate"). Further particulars relating to the Revised Cost Estimate are set out in notes 10A(c) and (e) below.

(c) HSR Agreement:

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "HSR Agreement") relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 10A(c)(vi) below) and provides that:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion (which includes the original budgeted cost of HK$65 billion plus the agreed increase in the estimated project cost of HK$19.42 billion (the portion of the entrustment cost (up to HK$84.42 billion) that exceeds HK$65 billion being the "Current Cost Overrun"));

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);

(iii) The Company will pay a special dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche) ("Special Dividend"). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement ("Entrustment Agreements") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the HSR Entrustment Agreement, the Liability Cap is equal to the HSR Project Management Fee and any other fees that the Company receives under HSR Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the HSR Project Management Fee is increased in accordance with the HSR Agreement (as it will be equal to the increased HSR Project Management Fee under the HSR Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;

- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and

- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

(v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in HSR Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;

(vi) The arrangements under the HSR Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and

- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

The HSR Agreement (and the Special Dividend) was approved by the Company's independent shareholders at the General Meeting held on 1 February 2016 and became unconditional upon approval by the Legislative Council on 11 March 2016 of the HKSAR Government's additional funding obligations.

(d) Operations of HSR:

On 23 August 2018, the Company and KCRC entered into the SSCA-HSR to supplement the SCA dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

(e) Based on the Company's latest review of the Revised Cost Estimate for the agreed scope of the project and having taken account of the opinion of independent experts including one on the review of the Revised Cost Estimate, the Company believes that, although the latest final project cost is likely to come close to the Revised Cost Estimate, the Revised Cost Estimate is still achievable and there is no current need to revise further such estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed the Revised Cost Estimate, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds the Revised Cost Estimate (if any) except for certain agreed excluded costs (as more particularly described in note 10A(c)(ii) above).

(f) The Company has not made any provision in its accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 10A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 31 December 2019 and up to the date of the annual report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

(g) During the year ended 31 December 2019, HSR Project Management Fee of HK$78 million (2018: HK$402 million) was recognised in the consolidated profit and loss account. As at 31 December 2019, the total HSR Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK$6,548 million (as at 31 December 2018: HK$6,470 million).

In relation to the sufficiency of the HSR Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the HSR Project Management Fee. Accordingly, an appropriate amount of provision was recognised in the profit and loss account.

B. SHATIN TO CENTRAL LINK ("SCL") PROJECT

(a) SCL Agreements

The Company and the HKSAR Government entered into the SCL Preliminary Entrustment Agreement ("**SCL EA1**") in 2008, the SCL Advance Works Entrustment Agreement ("**SCL EA2**") in 2011, and the SCL Entrustment Agreement ("**SCL EA3**") in 2012 (together, the "**SCL Agreements**"), in relation to the SCL.

Pursuant to the SCL EA1, the Company is responsible for carrying out or procuring the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible for funding directly the total cost of such activities.

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs ("**EA2 Advance Works Costs**").

The funding for both SCL EA1 and SCL EA2 has been obtained by the HKSAR Government.

The SCL EA3 was entered into in 2012 for the construction and commissioning of the SCL. The HKSAR Government is responsible for bearing all the work costs specified in the SCL EA3 including costs to contractors and costs to the Company ("**Interface Works Costs**") (which the Company would pay upfront and recover from the HKSAR Government) except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The total sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL EA3, including project management fee, is HK$70,827 million ("**Original Entrusted Amount**").

The Company is responsible for carrying out or procuring the carrying out of the works specified in the SCL Agreements for a SCL Project Management Fee of HK$7,893 million (the "**Original PMC**"). As at 31 December 2019 and up to the date of the annual report, the Company has received payments of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. During the year ended 31 December 2019, Original PMC of HK$857 million (2018: HK$891 million) was recognised in the consolidated profit and loss account. As at 31 December 2019, the total Original PMC recognised to date in the consolidated profit and loss account amounted to HK$7,328 million (as at 31 December 2018: HK$6,471 million).

As mentioned above, the EA2 Advance Works Costs and the Interface Works Costs are payable by the HKSAR Government to the Company. During the year ended 31 December 2019, the total of these costs payable by the HKSAR Government to the Company were HK$343 million (2018: HK$401 million). As at 31 December 2019, the amount of such costs which remained outstanding from the HKSAR Government was HK$1,219 million (as at 31 December 2018: HK$1,107 million).

(b) SCL EA3 cost overrun

(i) Cost to complete

The Company has previously announced that, due to the continuing challenges posed by external factors, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete ("**CTC**") and would need to be revised upwards significantly. The Company carried out a detailed review of the estimated CTC for the main construction works in 2017 and submitted a revised estimated total CTC of HK$87,328 million ("**2017 CTC Estimate**") to the HKSAR Government on 5 December 2017, taking into account a number of factors, including issues such as archaeological relics, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites. The 2017 CTC Estimate represented an increase to the CTC of HK$16,501 million, including an increase in the SCL Project Management Fee payable to the Company. Since submission of the 2017 CTC Estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process.

The Company then carried out and completed a further review and revalidation of the CTC and, on 10 February 2020, notified the HKSAR Government, in accordance with the terms of the SCL EA3, of the latest estimate of the CTC, being HK$82,999 million ("**2020 CTC Estimate**"), including additional project management fee payable to the Company of HK$1,371 million ("**Additional PMC**"), being the additional cost to the Company of carrying out its remaining project management responsibilities under the SCL EA3, as detailed in note 10B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company has already made a provision of HK$2 billion in its consolidated profit and loss account for the year ended 31 December 2019 (as detailed in note 10B(c) below). The 2020 CTC Estimate represents an increase of HK$12,172 million from the Original Entrusted Amount of HK$70,827 million, which is less than the increase in the 2017 CTC Estimate of HK$16,501 million.

In accordance with the terms of SCL EA3, the HKSAR Government will now seek the approval of Legislative Council for additional funding required for the SCL Project so that the SCL can be completed. For the avoidance of doubt, the amount sought by the HKSAR Government will exclude the Hung Hom Incidents Related Costs (as detailed in note 10B(c)(ii) below) and (as notified by the HKSAR Government and reflected its paper for the first stage of the Legislative Council process for the approval of additional funding for the SCL Project) any Additional PMC for the Company as further detailed in note 10B(b)(ii) below.

(ii) Additional PMC

As mentioned above, the Company is responsible for carrying out or procuring the execution of the works specified in the existing entrustment agreements relating to the SCL Project and the HKSAR Government, as the owner of the SCL, is responsible for bearing and financing the full amount of the total cost of such activities and for paying to the Company the Original PMC of HK$7,893 million in accordance with an agreed payment schedule. As detailed in note 10B(b)(i) above and as previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events, including the discovery of archaeological relics in the Sung Wong Toi Station area, requests for additional scope and the late or incomplete handover by third parties of construction sites to the Company. Not only do these matters increase the cost of works they also increase the cost to the Company of carrying out its project management responsibilities under the relevant SCL entrustment agreement, this increase estimated to be around HK$1,371 million. Regular updates have been provided to, and discussions have been held with, the HKSAR Government on the delays to the programme for the delivery of the SCL Project and the associated impacts on the CTC including the Additional PMC.

Given such significant modifications to the project programme and the associated increase in the project management costs of the Company and following the Company's receipt of independent expert advice, the Company believes that it is entitled (in accordance with the terms of the SCL EA3) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. Accordingly, as stated above, the Company has included the Additional PMC of HK$1,371 million in the 2020 CTC Estimate notified to the HKSAR Government, reflecting the additional scope of work and programme extension.

The HKSAR Government has advised the Company that: (i) the HKSAR Government considers there has been no material modification in respect of the SCL Project and, therefore, the HKSAR Government disagrees to the inclusion of any Additional PMC in the CTC; and (ii) in the HKSAR Government's applications to the Legislative Council for additional funding for the SCL Project, the HKSAR Government will not make any provision for any Additional PMC for the Company.

The Company notes that the HKSAR Government has issued its paper for the first stage of the Legislative Council process for the approval of additional funding for the SCL Project and that the HKSAR Government's paper does not include any provision by the HKSAR Government for any Additional PMC for the Company.

The Board is of the view that the Company's entitlement to any Additional PMC should be resolved with the HKSAR Government in accordance with the terms of the SCL EA3.

Despite the fact that this matter needs to be resolved, the Company will, in the interim, continue to comply with its project management obligations under the SCL EA3 and meet the costs thereof, to allow (subject to the availability of additional funding for the cost of the project works) the SCL Project to progress in accordance with the latest programme.

Given the uncertainty and potential financial impact to the Company in connection with the Additional PMC, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account for an amount of up to HK$1,371 million to reflect the additional cost to the Company of completing its remaining project management responsibilities.

(c) Hung Hom Incidents:

As stated in the Company's announcement dated 18 July 2019, towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension ("**First Hung Hom Incident**"). The Company took immediate steps to investigate the issues, report the Company's findings to the HKSAR Government and reserve the Company's position against relevant contractors. To address the First Hung Hom Incident, the Company submitted to the HKSAR Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension.

In late-2018 and early 2019, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel ("**NAT**"), the South Approach Tunnel ("**SAT**") and the Hung Hom Stabling Sidings ("**HHS**"), forming an addition to the First Hung Hom Incident ("**Second Hung Hom Incident**"). To address the Second Hung Hom Incident, the Company submitted to the HKSAR Government a verification proposal for verification of the as-constructed condition and workmanship quality of these areas.

*(i) Commission of Inquiry ("**COI**"):*

On 10 July 2018, the COI was set up by the HKSAR Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong). The Company has cooperated fully with the COI. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so. On 19 February 2019, the HKSAR Government announced that the terms of reference of the COI had been expanded and approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. Subsequently, the Chief Executive in Council extended the time for the COI to submit its final report to the Chief Executive to 31 March 2020.

On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. On 26 March 2019, the HKSAR Government published the redacted interim report in which the COI, while recognising it to be an interim report, found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material aspects. The COI also made a number of comments regarding the Company's performance and systems as well as a number of recommendations for the future.

On 18 July 2019, the Company completed and submitted to the HKSAR Government two separate final reports, one in respect of the First Hung Hom Incident and one in respect of the Second Hung Hom Incident, containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance. These suitable measures are being implemented to enable the SCL Project to be completed for public use in accordance with the latest project programme.

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions on factual evidence for the extended inquiry submitted to the COI, that there was failure on the part of both the Company and the contractor Leighton Contractors Asia Limited to perform the obligations which the two parties undertook for the SCL project and that the Company, which was entrusted by the HKSAR Government as the project manager of the SCL project, ought to have provided the requisite degree of skill and care reasonably expected of a professional and competent project manager. Up to the date of the annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement (as detailed in note 10B(c)(iii) below).

(ii) Hung Hom Incidents Related Costs:

In July 2019, the HKSAR Government accepted the Company's recommendation that the Tuen Ma Line (Tai Wai to Hung Hom Section of the SCL) should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station ("**Phased Opening**") which occurred on 14 February 2020.

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company announced in July 2019 that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening) ("**Hung Hom Incidents Related Costs**"), whilst reserving the Company's position as to the ultimate liability for such costs. Currently, the Company's best estimate of such costs is around HK$2 billion in aggregate. However, there is no certainty that, ultimately, the entirety of this amount will need to be funded.

The Company and the HKSAR Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs. If no overall settlement is reached between the Company and the HKSAR Government within a reasonable period, the provisions of the SCL EA3 shall continue to apply (as they currently do) including in relation to such costs, and the responsibility for the funding of such costs shall be determined in accordance with the SCL EA3.

After taking into account the above and in light of the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK$2,000 million in its consolidated profit and loss account for the year ended 31 December 2019. Up to 31 December 2019, the Company has committed and / or paid Hung Hom Incidents Related Costs totaling HK$915 million, and no provision was written back during the year. The provision is included in "**Expenses relating to other businesses**" in the consolidated profit and loss account and in "**Creditors, other payables and provisions**" in the consolidated statement of financial position.

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and / or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated profit and loss account in that financial period.

(iii) Potential Claims from and Indemnification to the HKSAR Government

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL EA3, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI (as stated in note 10B(b) above), up to the date of the annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

(iv) The eventual outcome of the discussions between the Company and the HKSAR Government on various matters including the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Hung Hom Incidents Related Costs, the level of recovery from relevant parties and the development and eventual outcome relating to the Additional PMC (as detailed in note 10B(b)(ii) above) remain highly uncertain at the current stage. As a result, no additional provision other than the HK$2,000 million referred to above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no other provision on the SCL Project related matters was recognised at 31 December 2019, the Company will reassess on an ongoing basis the need to recognise a further provision in future years in light of any further developments.

(d) Phased Opening of SCL:

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020. Prior to the full opening of the Tuen Ma Line, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire Tuen Ma Line (which is intended to replace the Supplemental Service Concession Agreement that was executed on 11 February 2020).

11. DEBTORS AND CREDITORS

A As at 31 December 2019, the Group's debtors and other receivables amounted to HK$11,169 million (2018: HK$9,576 million), of which debtors accounted for HK$3,220 million (2018: HK$3,217 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are mainly due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. The ageing of debtors as at 31 December 2019 is analysed as follows:

in HK$ million	**2019**	2018
Amounts not yet due	**2,775**	2,807
Overdue by 30 days	**153**	275
Overdue by 60 days	**59**	34
Overdue by 90 days	**41**	10
Overdue by more than 90 days	**192**	91
Total debtors	**3,220**	3,217
Other receivables and contract assets	**7,949**	6,359
	11,169	9,576

During the years ended 31 December 2017 and 2018, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2017/2018 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

Based on the strength of advice from external senior counsels and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The

Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK$1,816 million and HK$462 million in 2017 and 2018 respectively. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made during the years ended 31 December 2018 and 2019 in respect of the above notices of assessment/additional assessment.

B As at 31 December 2019, creditors, other payables and provisions amounted to HK$33,315 million (2018: HK$25,947 million), of which creditors and accrued charges amounted to HK$19,315 million (2018: HK$18,525 million). As at 31 December 2019, the analysis of creditors by due dates is as follows:

in HK$ million	**2019**	2018
Due within 30 days or on demand	**7,157**	6,152
Due after 30 days but within 60 days	**1,559**	1,142
Due after 60 days but within 90 days	**774**	911
Due after 90 days	**4,978**	4,398
	14,468	12,603
Rental and other refundable deposits	**2,857**	3,209
Accrued employee benefits	**1,990**	2,713
	19,315	18,525

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2019. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 1,870,000 Ordinary Shares of the Company for a total consideration of approximately HK$88 million during the year ended 31 December 2019.

13. CHARGE ON GROUP ASSETS

As at 31 December 2019, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB1,847 million bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2019.

14. ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 20 May 2020. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 9 April 2020.

15. CORPORATE GOVERNANCE

During the year ended 31 December 2019, the Company has complied with the Code Provisions set out in the Corporate Governance Code, contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

16. PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The Annual Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in mid-April 2020.

KEY STATISTICS

	Year ended 31 December	
	2019	2018
Total passenger boardings for Hong Kong transport operations (in millions)		
- Domestic Service	**1,568.2**	1,670.0
- Cross-boundary Service	**104.2**	117.4
- High Speed Rail (Hong Kong Section)	**16.9**	5.3
- Airport Express	**15.8**	17.7
- Light Rail and Bus	**207.3**	230.4
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,658**	4,862
- Cross-boundary Service (daily)	**285.4**	321.8
- High Speed Rail (Hong Kong Section) (daily)	**46.4**	53.0 #
- Airport Express (daily)	**43.2**	48.5
- Light Rail and Bus (weekday)	**598.6**	652.9
EBITDA margin^		
- Excluding Mainland of China and international subsidiaries	**42.0%**	54.5%
- Including Mainland of China and international subsidiaries	**28.1%**	35.0%
EBIT margin*		
- Excluding Mainland of China and international subsidiaries	**19.3%**	32.8%
- Including Mainland of China and international subsidiaries	**13.8%**	21.5%

Average of 23 September 2018 to 31 December 2018

^ Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of total revenue

* Profit before interest, finance charges and taxation (excluding profit on Hong Kong property development and share of profit or loss of associates and joint venture) as a percentage of total revenue

MANAGEMENT REVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

Highlights of our Mainland of China and International Businesses during the year included the commencement of service on the Sydney Metro North West Line, the initial section of

Hangzhou Metro Line 5, as well as the Macao Light Rapid Transit ("LRT") Taipa Line. TfL Rail in London, the future Elizabeth line, also commenced service between Paddington and Reading.

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

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

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

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

HONG KONG BUSINESSES

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

Effect of Public Order Events on our Hong Kong Businesses

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

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

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

Transport Operations

HK$ million	**Year ended 31 December 2019**	2018	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**19,938**	19,490	2.3
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**5,909**	8,171	(27.7)
(Loss) / profit before interest, finance charges and taxation and after variable annual payment ("EBIT")	**(591)**	1,985	n/m
EBITDA Margin (in %)	**29.6%**	41.9%	(12.3)% pts.
EBIT Margin (in %)	**(3.0)%**	10.2%	(13.2)% pts.

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

Patronage and Revenue

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

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

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

Market Share

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

Fare Adjustment, Promotions and Concessions

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

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

In view of the outbreak of COVID-19, the Company has also decided to ensure, through fare rebates or other arrangements, that there will be no actual adjustment to our Octopus fares for the remainder of 2020 despite the fare adjustment rate for 2020/21 under the FAM that will only be derived after the Census and Statistics Department announces the year-on-year percentage change in the Nominal Wage Index (Transportation Section) for December 2019 and other relevant figures later in the first quarter of 2020. Detailed arrangements will be announced by the end of March 2020 when the statistics are published. After this plan is implemented, Octopus fares would have stayed the same from January 2019 to the end of 2020.

Service Performance

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

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

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

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

Enhancing the Customer Experience

More Frequent Services

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

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

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

Greater Comfort for Passengers

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

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

Enhancing Station Facilities

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

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

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

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

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

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

Station Commercial Businesses

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

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

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

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

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

Property Businesses

Property Rental and Management

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

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

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

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

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

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

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

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

GROWING OUR HONG KONG BUSINESSES

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

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

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

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

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

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

Other New Railway Projects

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

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

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

Expanding the Property Portfolio

Investment Properties

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

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

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

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

Residential Property Development

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

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

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

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

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

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

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

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

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

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

Railway Businesses in the Mainland of China

Beijing

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

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

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

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

Shenzhen

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

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

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

Hangzhou

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

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

Property Business in the Mainland of China

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

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

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

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

Macao Railway Businesses

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

European Railway Businesses

United Kingdom

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

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

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

Sweden

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

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

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

The performance of Stockholms pendeltåg significantly improved in 2019 following the operational and financial difficulties in 2018. We will continue our rectification actions with a focus on bringing service back to the committed level. However, MTR Pendeltågen AB, our wholly owned subsidiary operating Stockholms pendeltåg, will likely remain in a loss-making position for a year or so despite narrowed losses in 2019. During the year, MTR Tech AB bought out the other 50% shareholding in Emtrain AB, which maintains the rolling stock of

Stockholms pendeltåg, bringing rolling stock maintenance for the Stockholms pendeltåg fully under our management.

Australia Railway Businesses

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

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

Growth Beyond Hong Kong

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

In the Mainland of China, we were awarded the 49.7-km BJL17 O&M concession in December 2019. This is a 20-year concession commencing from the first phase opening of the line, which is targeted for the end of 2021. We will lease the rolling stock over the 20-year period, with lease payments to be paid in two instalments after the opening of each phase. During the year, we continued our efforts to identify development opportunities in Beijing, Hangzhou and, in particular, the Guangdong-Hong Kong-Macao Greater Bay Area.

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

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

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

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

FINANCIAL REVIEW

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

Profit and Loss

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

Results on Normalised Basis^				
Recurrent Business Profit	**9,712**	**9,020**	**692**	**7.7%**
Property Development Profit	**5,580**	**2,243**	**3,337**	**148.8%**
Underlying Business Profit	**15,292**	**11,263**	**4,029**	**35.8%**
Investment Property Revaluation	**1,372**	4,745	(3,373)	(71.1%)
Net Profit Attributable to Shareholders of the Company	**16,664**	**16,008**	**656**	**4.1%**

n/m: not meaningful

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

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

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

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

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

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

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

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

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

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

Non-recurrent Business Profit
Property development profit increased by 148.8% to HK$5,580 million, mainly derived from the surplus proceeds of MALIBU (LOHAS Park Package 5) and sharing in kind of The LOHAS, the shopping mall of LOHAS Park Package 7.

Net Profit Attributable to Shareholders of the Company
Revaluation of the Group's investment properties in Hong Kong and Mainland of China, which was performed by independent professional valuation firms, resulted in a revaluation gain of HK$1,372 million in 2019, down by 71.1% when compared with 2018. The decrease was

mainly due to the economic downturn stemming from China-US trade tensions as well as the public order events in Hong Kong. Net profit attributable to shareholders of the Company was reduced by 25.5% when compared with 2018. Should the adverse impact of the public order events in Hong Kong and the provisions made be excluded, the net profit attributable to shareholders of the Company would have increased by 4.1% to HK$16,664 million.

Financial Position

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

Net Assets

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

Total Assets

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

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

Total Liabilities

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

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

Gross Debt and Cost of Borrowing

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

Net Debt-to-equity Ratio

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

Cash Flow

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

 # Excluding effect of exchange rate change

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

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

Net Receipts from Property Development

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

Other Cash Outflow from Investing Activities

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

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

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

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

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

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

Safety First

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

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

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

Enterprise Risk Management

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

On an ongoing basis, business units across the Company follow the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The Risk

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

Committee, which is one of the Board Committees, reviews the ERM framework and policy, as well as the Company's top risks and emerging risks, and their respective mitigation measures.

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

OUR PEOPLE

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

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

MTR ACADEMY

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

OUTLOOK

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

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

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

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

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

As a result of the COVID-19 outbreak, several boundary crossings between Hong Kong and the Mainland have been closed (including the crossings at our Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations, as well as the Intercity through train control point at Hung Hom Station), resulting in no cross boundary passengers during the period of closure and the closure of the station shops at these stations. As we have previously announced, in addition, the work-from-home and school closure measures, coupled with the much reduced tourist and local leisure travellers, are having a significant negative impact on the patronage of our Domestic Service.

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

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

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

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

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

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

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

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

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

By Order of the Board
Dr Jacob Kam Chak-pui
Chief Executive Officer

Hong Kong, 5 March 2020

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting 2020

The Register of Members of the Company will be closed from 14 May 2020 to 20 May 2020 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To be eligible to attend, speak and vote at the Company's Annual General Meeting to be held on 20 May 2020, all completed transfer documents, accompanied by the relevant share certificates have to be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 13 May 2020 (Hong Kong time).

2019 Final Dividend

The Register of Members of the Company will be closed from 26 May 2020 to 29 May 2020 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To qualify for the proposed 2019 final dividend, all completed transfer documents, accompanied by the relevant share certificates have to be lodged with the Company's Share Registrar, at the address mentioned in the preceding paragraph, no later than 4:30 p.m. on 25 May 2020 (Hong Kong time). The proposed 2019 final dividend, with a scrip dividend option (except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions), is expected to be distributed on 16 July 2020 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 29 May 2020.

As at the date of this announcement:

Members of the Board: Rex Auyeung Pak-kuen *(Chairman)* **, Dr Jacob Kam Chak-pui *(Chief Executive Officer)*, Andrew Clifford Winawer Brandler*, Walter Chan Kar-lok*, Dr Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Dr Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Rose Lee Wai-mun*, Lucia Li Li Ka-lai*, Jimmy Ng Wing-ka*, Benjamin Tang Kwok-bun*, Dr Allan Wong Chi-yun*, Johannes Zhou Yuan*, James Henry Lau Jr (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Frank Chan Fan)**, Permanent Secretary for Development (Works) (Lam Sai-hung)** and Commissioner for Transport (Mable Chan)**

Members of the Executive Directorate: Dr Jacob Kam Chak-pui, Adi Lau Tin-shing, Roger Francis Bayliss, Margaret Cheng Wai-ching, Linda Choy Siu-min, Dr Peter Ronald Ewen, Herbert Hui Leung-wah, Dr Tony Lee Kar-yun, Gillian Elizabeth Meller, David Tang Chi-fai and Jeny Yeung Mei-chun

* *independent non-executive Director*
** *non-executive Director*

This announcement is made in English and Chinese. In case of any inconsistency, the English version shall prevail.

About MTR Corporation

Every day, MTR connects people and communities. As a recognised world-class operator of sustainable rail transport services, we are a leader in safety, reliability, customer service and efficiency.

MTR has extensive end-to-end railway expertise with more than 40 years of railway projects experience from design to planning and construction through to commissioning, maintenance and operations. Going beyond railway delivery and operation, MTR also creates and manages dynamic communities around its network through seamless integration of rail, commercial and property development.

With more than 40,000 dedicated staff*, MTR carries over 13 million passenger journeys worldwide every weekday in Hong Kong, the United Kingdom, Sweden, Australia and the Mainland of China. MTR strives to grow and connect communities for a better future.

For more information about MTR Corporation, please visit www.mtr.com.hk.

*includes our subsidiaries and associates in Hong Kong and worldwide