MTR

Keep Cities Moving

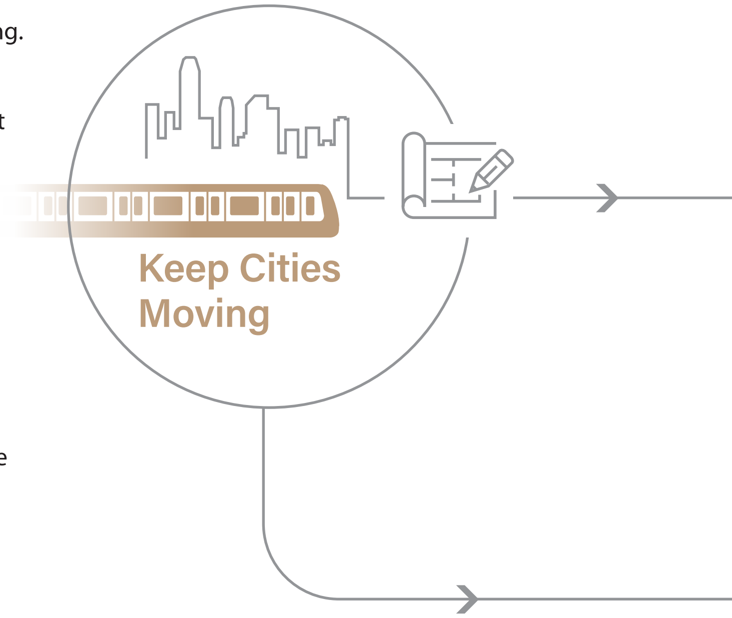
Annual Report 2020

Stock code: 66

CONTENTS

For over four decades, MTR has evolved to become one of the leaders in rail transit, connecting communities in Hong Kong, the Mainland of China and around the world with unsurpassed levels of service reliability, comfort and safety. In our Annual Report 2020, we look back at one of the most challenging years in our history, a time when our Company worked diligently in the midst of an unprecedented global pandemic to continue delivering high operational standards while safeguarding the well-being of our customers and colleagues – striving, as always, to keep cities moving.

Despite the adverse circumstances, we were still able to achieve our objective of planning an exciting strategic direction. This report also introduces our Corporate Strategy, "Transforming the Future", which outlines how innovation, technology and, most importantly, sustainability and robust environmental, social and governance practices will shape the future for MTR. In addition, we invite you to read our Sustainability Report 2020, which covers how relevant and material sustainability issues are managed and integrated into our business strategies. We hope that together, these reports offer valuable insights into the events of the past year and the steps we plan on taking toward helping Hong Kong and other cities we serve realise a promising long-term future.



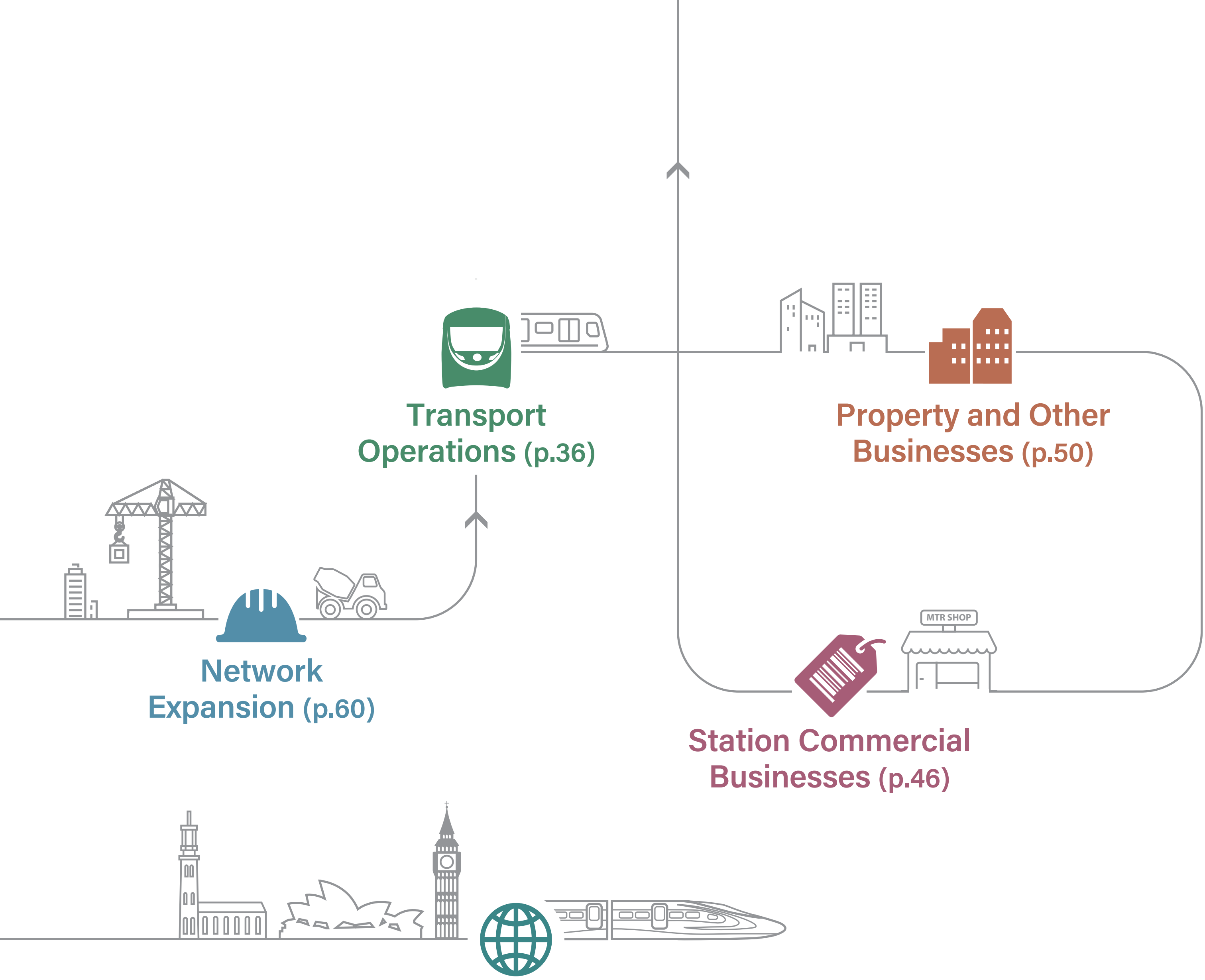
Annual Report 2020

Sustainability Report 2020

Overview

Business Review and Analysis

Cover image: composite photograph at Kai Tak Station



Corporate Governance

Financials and Other Information

CORPORATE STRATEGY

Our Vision

We aim to be an internationally-recognised company that connects and grows communities with caring, innovative and sustainable services.

Our Purpose

Keep Cities Moving

Our Values

- Excellent Service
- Value Creation
- Mutual Respect
- Enterprising Spirit

Our Cultural Focus Area

- Participative Communication
- Collaboration
- Effectiveness & Innovation
- Agility to Change

TRANSFORMING THE FUTURE

OUR CORPORATE STRATEGY

We will embed sustainability, Environmental, Social and Governance principles into our businesses and operations with the aim of creating value for all our stakeholders.

Hong Kong Core

Attain full potential of Hong Kong Core Business and advance our social objectives

Mainland China and International Business

Expand into new hubs and new products across Mainland China and International Business, maintaining a steady growth

3 STRATEGIC PILLARS

New Growth Engine

Invest in new technologies and mobility services to reinforce our core for long-term growth

5 ENABLERS

Transformation Management Office

- Dedicated to enable and deliver the strategic transformation
- Engage MTR stakeholders for trust, commitment & results

Organisation & Processes

- Clearer accountabilities and more effective decision-making
- Simplify and streamline processes

Technology

- Utilise data and analytics for decisions and opportunities
- Invest in focus areas & systems to improve effectiveness and efficiency

Finance

- Redefine accountability and profit/loss ownership of business units
- Establish & track long-term financial goals for financial sustainability

People

- Build new capabilities for staff development
- Work smarter with innovative methods and technology

HIGHLIGHTS

Hong Kong Businesses

COVID-19
Challenges

1.3+ billion
Total Patronage in Hong Kong

99.9%
Passenger Journeys On-time

Tuen Ma Line Phase 1
Commenced Service

New Signalling System and **New Trains** of **East Rail Line**
Commissioned

Awarded LOHAS Park Property
Packages 12 and 13 and
The Southside
Package 5

Opened
The LOHAS
Shopping Mall

Took on Full Interest of
Telford Plaza II and
PopCorn 2

Mainland of China and International Businesses

Won
Shenzhen Metro Line 13 and
Sweden Mälartåg Train Service

Growth and Outlook

Tuen Ma Line Full Line Operation expected by **Third Quarter 2021**

Proceed with **Tung Chung Line Extension, Tuen Mun South Extension** and **Kwu Tung Station and Northern Link**

Proceed with Technical Studies of **Siu Ho Wan Depot Site** Topside Property Development

Over **23,000 Residential Units** and **2 Shopping Malls** under Development

Smart Mobility to Enhance Customer Experience

COVID-19 Challenges and “New Normal”

Environmental, Social and Governance

Fare Rebates
offered to passengers as Relief Measures

Rental Concessions Granted
to Tenants in Stations and Shopping Malls

Issued
US$1.2 billion
10-year Green Bond

0.58
Reportable Events
per million passengers carried in our Heavy Rail and Light Rail networks

3.4%
Voluntary Staff Turnover Rate
in Hong Kong

4.8 Average Training Days
per Employee in Hong Kong

HK$15.4 million
Donated and Sponsored to Charitable and Other Organisations

Adopted
Corporate Governance Best Practices

KEY AWARDS

Hong Kong Transport Operations

- **Public Transportation Award, Hong Kong Service Awards 2020**
  East Week
- **Public Transportation Service Award, Sing Tao Service Awards 2019**
  Sing Tao Daily
- **Public Transportation Service Award – Elite Awards 2019**
  Ming Pao Weekly
- **Hong Kong Power Brand Award, HKIM Market Leadership Award 2019/2020**
  Hong Kong Institute of Marketing
- **2020 Hong Kong Digital Transformer, IDC Digital Transformation Awards 2020**
  International Data Corporation

Hong Kong Property and Other Businesses

- **ELEMENTS – Excellence Service Award, Hong Kong Service Awards 2020**
  East Week
- **ELEMENTS – Best Property Management Award in Occupational Safety and Health – Gold Award, The 7th Best Property Safety Management Award**
  Occupational Safety and Health Council and Construction Industry Council
- **Telford Plaza – Shopping Mall Award for Warm Service, Hong Kong Service Awards 2020**
  East Week
- **Telford Plaza – Top 25 My Favourite Shopping Mall Events**
  Hong Kong Economic Times
- **Paradise Mall – Best Use of KOL, Digital Ex Award 2020**
  Metro Finance
- **Two ifc – Outstanding Team (Private Housing – Non-residential) Excellence Award, HKIH, Elite Awards 2020**
  The Hong Kong Institute of Housing

Mainland of China and International Businesses

- **Beijing MTR – 2020 GoldenBee CSR China Honor Roll – GoldenBee Enterprise**
  GoldenBee Think Tank & China Sustainability Tribune
- **Shenzhen MTR – Outstanding Foreign Enterprises in 2020 Shenzhen Global Investment Promotion Conference**
  Commerce Bureau of Shenzhen Municipality, Shenzhen Association of Enterprises with Foreign Investment
- **MTRX – Ranked 3rd in the Swedish Innovation Index 2019**
  CTF Service Research Centre and Karlstad Business School
- **Sydney Metro North West Line – Infrastructure Project of the Year**
  Sydney Metro City & Southwest Line – Government Partnership Excellence Award
  National Infrastructure Awards 2020
  Infrastructure Partnerships Australia

Environmental, Social and Governance

- **The Asset Triple A Country Awards 2020**
  - **Best Green Bond Award, Hong Kong**
  - **Best Issuer for Sustainable Finance, Hong Kong**

  The Asset
- **15 Years Plus Caring Company Logo**
  Hong Kong Council of Social Service
- **2019/2020 Corporate and Employee Contribution Programme**
  - **Diamond Award**
  - **3rd Highest Donation Award for CARE Scheme**
  - **4th Top Fund-raiser Award**

  The Community Chest
- **HR Appreciation Awards 2020**
  - **Grand Winner – COVID-19 Special Award (Corporate)**
  - **Winner – COVID-19 Special Award (Corporate)**
  - **Winner – HR Best Practice – Compensation & Benefits**
  - **Winner – HR Best Practice – Training & Development (2 awards)**
  - **Winner – HR Best Practice – Business Partner**

  Classified Post
- **Greater Bay Area Corporate Sustainability Awards 2020 – GBA's Outstanding Corporation**
  - **Social Sustainability Award – Sustainable Cities and Communities**
  - **Environmental Sustainability Award – Climate Action**

  Metro Finance
- **Corporate Responsibility Award, Hong Kong Service Awards 2020**
  East Week
- **Public Utility Sector – Excellence Award in Anti-pandemic Measures, Barrier-free Access Facilities and Corporate Responsibility 01 Gold Medal Awards 2020**
  HK01
- **InnoESG Prize 2020**
  UNESCO HK Association Global Peace Centre, Lions Club HKIFC, Rotary Action Group for Peace and SocietyNext Foundation

Investor Relations

- **Bronze Award – General Category, 2020 Best Annual Reports Awards**
  Hong Kong Management Association
- **Two awards received in 2020 International Annual Reports Competition (ARC) Awards**
  MerComm, Inc.

KEY FIGURES

	2020 HK$ million	2020 %	2019 HK$ million	2019 %	Inc./(Dec.) %
Total revenue					
Recurrent business revenue					
– Hong Kong transport operations	**11,896**	**28.0**	19,938	36.6	(40.3)
– Hong Kong station commercial businesses	**3,269**	**7.7**	6,799	12.5	(51.9)
– Hong Kong property rental and management businesses	**5,054**	**11.9**	5,137	9.4	(1.6)
– Mainland of China and international railway, property rental and management subsidiaries	**21,428**	**50.3**	21,085	38.7	1.6
– Other businesses	**894**	**2.1**	1,545	2.8	(42.1)
	42,541	**100.0**	54,504	100.0	(21.9)
Property development business revenue					
– Mainland of China property development	**–**	**–**	–	–	n/m
Total revenue	**42,541**	**100.0**	54,504	100.0	(21.9)
Total EBITDA[1]					
Recurrent business EBITDA					
– Hong Kong transport operations	**(422)**	**(3.6)**	5,909	28.1	n/m
– Hong Kong station commercial businesses	**2,760**	**23.6**	6,119	29.1	(54.9)
– Hong Kong property rental and management businesses	**4,204**	**36.0**	4,286	20.4	(1.9)
– Mainland of China and international railway, property rental and management subsidiaries	**533**	**4.6**	1,325	6.3	(59.8)
– Other businesses, project studies and business development expenses	**(1,881)**	**(16.1)**	(2,288)	(10.9)	17.8
	5,194	**44.5**	15,351	73.0	(66.2)
Property development business EBITDA					
– Hong Kong property development	**6,491**	**55.6**	5,707	27.1	13.7
– Mainland of China property development	**(13)**	**(0.1)**	(25)	(0.1)	48.0
	6,478	**55.5**	5,682	27.0	14.0
Total EBITDA	**11,672**	**100.0**	21,033	100.0	(44.5)
Total EBIT[2]					
Recurrent business EBIT					
EBIT					
– Hong Kong transport operations	**(5,408)**	**(81.0)**	(591)	(4.4)	(815.1)
– Hong Kong station commercial businesses	**2,502**	**37.5**	5,122	37.9	(51.2)
– Hong Kong property rental and management businesses	**4,185**	**62.7**	4,264	31.6	(1.9)
– Mainland of China and international railway, property rental and management subsidiaries	**261**	**3.9**	1,089	8.1	(76.0)
– Other businesses, project studies and business development expenses	**(1,949)**	**(29.2)**	(2,353)	(17.4)	17.2
Share of profit of associates and joint venture	**605**	**9.1**	288	2.1	110.1
	196	**3.0**	7,819	57.9	(97.5)
Property development business EBIT					
– Hong Kong property development	**6,491**	**97.2**	5,707	42.3	13.7
– Mainland of China property development	**(13)**	**(0.2)**	(25)	(0.2)	48.0
	6,478	**97.0**	5,682	42.1	14.0
Total EBIT	**6,674**	**100.0**	13,501	100.0	(50.6)
Interest and finance charges	**(1,004)**		(859)		16.9
Investment property revaluation (loss)/gain	**(9,190)**		1,372		n/m
(Loss)/profit before taxation	**(3,520)**		14,014		n/m
Income tax	**(1,301)**		(1,922)		(32.3)
(Loss)/profit for the year	**(4,821)**		12,092		n/m
Non–controlling interests	**12**		(160)		n/m
(Loss)/profit for the year attributable to shareholders of the Company	**(4,809)**		11,932		n/m
(Loss)/profit for the year attributable to shareholders of the Company arising from:					
Recurrent businesses	**(1,126)**		4,980		n/m
Property development businesses	**5,507**		5,580		(1.3)
Underlying businesses	**4,381**		10,560		(58.5)
Investment property revaluation (loss)/gain	**(9,190)**		1,372		n/m
Total (loss)/profit for the year attributable to shareholders of the Company	**(4,809)**		11,932		n/m

Notes

1 EBITDA represents operating profit/(loss) before depreciation, amortisation, variable annual payment and share of profit of associates and joint venture.

2 EBIT represents profit/(loss) before interest, finance charges and taxation and after variable annual payment.

n/m: not meaningful

	2020	2019	Inc./(Dec.) %
Financial ratios			
EBITDA margin[3] *(in %)*	**12.2**	28.1	(15.9)% pts.
EBITDA margin[3] (excluding Mainland of China and international subsidiaries[δ]) *(in %)*	**22.1**	42.0	(19.9)% pts.
EBIT margin[4] *(in %)*	**(1.0)**	13.8	(14.8)% pts.
EBIT margin[4] (excluding Mainland of China and international subsidiaries[φ]) *(in %)*	**(3.2)**	19.3	(22.5)% pts.
Net debt-to-equity ratio[5] *(in %)*	**22.5**	15.4	7.1% pts.
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**2.4**	5.8	(3.4)% pts.
Interest cover[6] *(times)*	**8.2**	15.3	(7.1) times
Share information			
Basic (loss)/earnings per share *(in HK$)*	**(0.78)**	1.94	n/m
Basic earnings per share arising from underlying businesses *(in HK$)*	**0.71**	1.72	(58.7)
Ordinary dividend per share *(in HK$)*	**1.23**	1.23	–
Share price at 31 December *(in HK$)*	**43.35**	46.05	(5.9)
Market capitalisation at 31 December *(HK$ million)*	**267,943**	283,574	(5.5)
Operations highlights			
Total passenger boardings for Hong Kong *(million)*			
Domestic Service	**1,145.0**	1,568.2	(27.0)
Cross-boundary Service	**7.6**	104.2	(92.7)
High Speed Rail	**1.0**	16.9	(93.9)
Airport Express	**3.1**	15.8	(80.5)
Light Rail and Bus	**154.0**	207.3	(25.8)
Average number of passengers *(thousand)*			
Domestic Service *(weekday)*	**3,406**	4,658	(26.9)
Cross-boundary Service *(daily)*	**20.9**	285.4	(92.7)
High Speed Rail *(daily)*	**35.6**^	46.4	(23.2)
Airport Express *(daily)*	**8.4**	43.2	(80.6)
Light Rail and Bus *(weekday)*	**438.0**	598.6	(26.8)
Average fare *(in HK$)*			
Domestic Service	**7.82**	8.11	(3.6)
Cross-boundary Service	**27.23**	29.08	(6.4)
High Speed Rail	**86.44**	88.73	(2.6)
Airport Express	**45.52**	64.16	(29.1)
Light Rail and Bus	**3.12**	3.27	(4.4)
Proportion of franchised public transport boardings *(in %)*	**45.3**	47.4	(2.1)% pts.

Notes

3 *EBITDA margin represents total EBITDA (excluding profit on Hong Kong property development) as a percentage of total revenue.*

4 *EBIT margin represents total EBIT (excluding profit on Hong Kong property development and share of profit of associates and joint venture) as a percentage of total revenue.*

5 *Net debt-to-equity ratio represents loans and other obligations, short-term loans, obligations under service concession and loans from holders of non-controlling interests net of cash, bank balances and deposits in the consolidated statement of financial position as a percentage of total equity.*

6 *Interest cover represents operating profit before depreciation, amortisation, variable annual payment and share of profit of associates and joint venture divided by gross interest and finance charges before capitalisation, and utilisation of government subsidy for Shenzhen Metro Line 4 operation.*

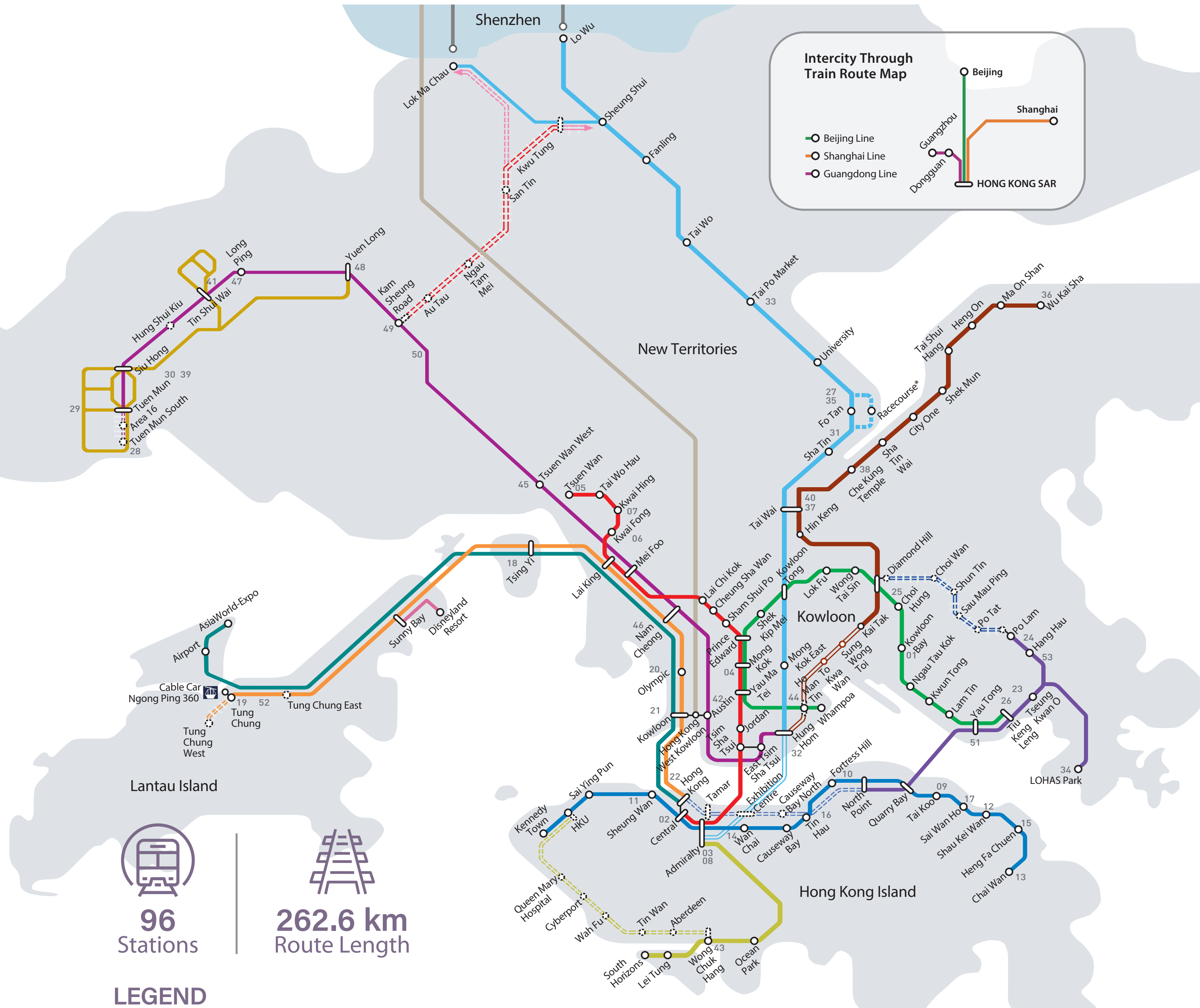
δ *Excluding the relevant revenue and expenses of Mainland of China and international subsidiaries of HK$21,428 million and HK$20,908 million (2019: HK$21,085 million and HK$19,785 million) respectively.*

φ *Excluding the relevant revenue, expenses, depreciation and amortisation of Mainland of China and international subsidiaries of HK$21,428 million, HK$20,908 million and HK$272 million (2019: HK$21,085 million, HK$19,785 million and HK$236 million) respectively.*

^ *Average of 1 to 29 January 2020.*

OUR NETWORK

HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS



96 Stations

262.6 km Route Length

LEGEND

- Station
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- Shenzhen Metro Network
- * Racing days only

EXISTING NETWORK

- Airport Express
- Disneyland Resort Line
- East Rail Line
- High Speed Rail
- Island Line
- Kwun Tong Line
- Light Rail
- Tuen Ma Line Phase 1
- South Island Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

PROJECTS IN PROGRESS

- Shatin to Central Link (Tai Wai to Hung Hom Section)
- Shatin to Central Link (Hung Hom to Admiralty Section)

POTENTIAL FUTURE EXTENSIONS UNDER RAILWAY DEVELOPMENT STRATEGY 2014

- Northern Link and Kwu Tung Station
- Tuen Mun South Extension
- East Kowloon Line
- Tung Chung Line Extension
- Hung Shui Kiu Station
- South Island Line (West)
- North Island Line

PROPERTIES OWNED / DEVELOPED / MANAGED BY THE CORPORATION

01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Tower
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square 1 / Maritime Square 2
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas
34 The Capitol / Le Prestige / Hemera / Wings at Sea / MALIBU / LP6 / The LOHAS
35 The Palazzo
36 Lake Silver
37 Festival City
38 The Riverpark
39 Century Gateway
42 The Austin / Grand Austin
45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Sol City

PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

34 LOHAS Park Packages
40 Tai Wai Station Packages
41 Tin Wing Stop
43 The Southside
44 Ho Man Tin Station Packages
51 Yau Tong Ventilation Building
52 Tung Chung Traction Substation
53 Pak Shing Kok Ventilation Building

WEST RAIL LINE PROPERTY DEVELOPMENTS (AS AGENT FOR THE RELEVANT SUBSIDIARIES OF KCRC)

39 Century Gateway
45 Ocean Pride / Ocean Supreme / PARC CITY / THE PAVILIA BAY / City Point
46 Cullinan West
47 The Spectra / Sol City
48 Yuen Long Station
49 Kam Sheung Road Station Packages
50 Pat Heung Maintenance Centre

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

MAINLAND OF CHINA AND MACAO

Beijing
Metro Line 4
Metro Line 4 – Daxing Line
Metro Line 14
Metro Line 16
Metro Line 17 (under construction)
Ginza Mall

Hangzhou
Metro Line 1
Metro Line 1 Xiasha Extension
Metro Line 1 Phase 3 (Airport Extension)
Metro Line 5
Metro Line 5 West Extension
Hangzhou West Station Property Development (under construction)

Shenzhen
Metro Line 4
Metro Line 4 North Extension
Metro Line 13 (under construction)
Tiara
TIA Mall

Tianjin
Shopping Mall (under construction)

Macao
Light Rapid Transit Taipa Line

EUROPE

United Kingdom
TfL Rail (future Elizabeth Line)
South Western Railway

Sweden
Stockholm Metro (Stockholms tunnelbana)
MTRX
Stockholm commuter rail (Stockholms pendeltåg)
Mälartåg (service to be taken over)

AUSTRALIA

Melbourne
Metropolitan Rail Service

Sydney
Sydney Metro North West Line
Sydney Metro City & Southwest Line (under construction)

CHAIRMAN'S LETTER

Dear Shareholders and other Stakeholders,

For over four decades, MTR has been fulfilling its purpose to "keep cities moving". Never has this mission been tested more than in the past two years. From the public order events of 2019 to the COVID-19 outbreak in 2020, these have been extraordinarily trying times for a company dedicated to keeping communities connected.

Around the world, the pandemic brought commerce to a halt, closed schools and forced employees to stay at home. In Hong Kong, train patronage fell sharply, foot traffic at our malls and station retail areas decreased, and tenants sought rental relief from the economic downturn, impacting our revenue across multiple business channels.

Through it all, we did our best to ensure safe, reliable, hygienic and affordable transport for our communities. We ensured the health and safety of our staff by providing them with appropriate personal protective equipment. We intensified the cleaning of our trains and railway facilities and employed innovative sanitisation technologies to safeguard public health. We adjusted service frequency to match Government's objectives in fighting the pandemic. We offered rebates to passengers and rental concessions to retail tenants to help them weather the downturn.

Indeed, corporate responsibility and strong corporate governance principles guided our actions throughout 2020 more prominently than ever, and our stakeholders can expect a robust environmental, social and governance ("ESG") regime to play an even bigger role in the Company moving forward. This is evident in our new Corporate Strategy, which the Board approved in June 2020 to set out the direction of our future development.

Despite the difficulties faced during the year, MTR was still able to make progress on a number of important projects. Works on the Shatin to Central Link continued. We awarded the design consultancies for two new projects under Government's Railway Development Strategy 2014. Residential unit pre-sales in Hong Kong progressed well, and our investment property portfolio continued to expand.

None of this would have been possible without the contributions of our exceptional staff. I offer them my most sincere thanks for their hard work and professionalism, which have kept MTR and Hong Kong moving despite great challenges.

CORPORATE STRATEGY

Near-term challenges have not dampened our spirit to plan for the future success of MTR and all of the cities we serve. Our new Corporate Strategy, "Transforming the Future", charts a future path marked by business and ESG targets that will contribute to the long-term sustainability of the Company and the communities it serves. It also defines a more fit-for-future structure with a strengthened Hong Kong core, expanded Mainland of China and international outreach, and new growth engines to explore – our three strategic pillars for success.

We aim to become an internationally recognised company that connects and grows communities with caring, innovative and sustainable services. By working together on our Corporate Strategy, I am confident that we will be able to build an even more effective, efficient and agile organisation that can tackle the challenges of tomorrow and help us create a better future. In managing our business sustainably and in accordance with world-class principles of governance, I also believe we can help individuals and communities thrive while contributing to the fight against climate change.

BUSINESS PERFORMANCE AND GROWTH

In 2020, MTR was able to advance a number of railway and property projects that will contribute to Hong Kong's transport infrastructure and the Company's future business growth.

The year saw the successful opening of the Tuen Ma Line Phase 1 with new stations. We have been invited by Government to proceed with the detailed planning and design for the Tung Chung Line Extension, Tuen Mun South Extension (which will become the Tuen Ma Line Extension in the future), and Kwu Tung Station and the Northern Link. We awarded design consultancies for the first two extensions and have commenced procurement of the design consultancy for the third project. We are also making progress in planning future property development at the Siu Ho Wan Depot site. In addition to advancing these four new projects, we submitted proposals to Government for Hung Shui Kiu Station and the South Island Line (West) project.

As a global leader in railway transport, MTR is committed to strong corporate governance and upholding the highest standards of operational excellence. Regarding the Hung Hom Extension of the Shatin to Central Link project, we have been working diligently to implement the recommendations made in the Final Report of the Commission of Inquiry, which concluded that the structures are safe and fit for purpose with the suitable measures in place. These actions have now been completed. In the recent report issued by the Government-appointed Expert Advisor Team, it also concluded that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of suitable measures. Following the results of the investigation into the derailment near Hung Hom Station that were made public in March 2020, we implemented immediate measures to address the situation and prevent similar incidents from happening in future. In September 2020, we launched a detailed internal investigation into the postponement of the commissioning of the new signalling system and new trains on the East Rail Line and implemented remedial measures after carrying out the review. The new signalling system and new trains on the East Rail Line were launched on 6 February 2021. Moving forward, MTR will continuously review its practices to ensure world-class design, construction and operations for new projects and asset replacement works alike. We are also seeking to improve our risk management processes by implementing a "three lines of defence" framework. This model strengthens the depth of a company's risk management response by retaining strong accountability at the business unit level while enhancing assurance at the Executive and Board levels.

For our existing lines, we continued to enhance our facilities and services to keep delivering a world-class customer experience. New technology and smart mobility initiatives like QR code ticketing and our MTR Mobile – an app with features including train service information, journey planning and ticketing functions as well as shopping and lifestyle offers – make commuting better than ever by improving convenience and enriching the customer experience. We have been expanding our Wi-Fi coverage and mobile charging facilities in stations to keep passengers connected while in transit. We are adding lift button sensors, drinking water dispensers, public toilets and baby care rooms to improve passenger comfort. Ultimately, we strive to design journeys around the needs of each individual and ensure that our railway system is inclusive for all, from an age-friendly policy that caters to senior citizens to ensuring accessibility for the disabled. For example, new and refurbished seats throughout our network give our customers more places to rest.

In August, we were delighted to open The LOHAS shopping mall, which expands our Hong Kong portfolio of quality retail destinations adjacent to convenient railway transport links. We awarded the property development tenders for LOHAS Park Package 12 and Package 13 in 2020 and The Southside (also known as the Wong Chuk Hang Station Property Development) Package 5 in January 2021. We continued to diversify our revenue streams internationally, including in the Greater Bay Area and elsewhere in the Mainland of China. In August 2020, the Shenzhen Municipal Government awarded the consortium led by our wholly owned subsidiary the tender for Shenzhen Metro Line 13, a public-private partnership project that will boost our passenger numbers in a growing market. During the year we opened additional lines across the Mainland of China, including the Shenzhen Metro Line 4 North Extension, full line operation of Hangzhou Metro Line 5, Hangzhou Metro Line 1 Phase 3 (Airport Extension) and the Middle Section of Beijing Metro Line 16. In Sweden, our subsidiary was awarded the operations and maintenance concession for the Mälartåg train service, which we expect to take over from December 2021.

FINANCIAL PERFORMANCE

As announced on 19 January 2021, COVID-19 caused a substantial decrease in patronage and reduced revenue for our station commercial and property rental businesses in 2020. As a result, the loss arising from our recurrent businesses was HK$1,126 million. Together with the profit from our property development businesses, which decreased by 1.3% to HK$5,507 million, profit arising from our underlying businesses was HK$4,381 million, 58.5% lower than the previous year. Including the loss arising from the revaluation of our investment property portfolio, the net loss attributable to shareholders of the Company in 2020 was HK$4,809 million, equating to a loss per share of HK$0.78. Notwithstanding the challenging economic conditions, 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, will bring the full-year dividend to HK$1.23 per share, same as that of 2019. The Board of Directors of the Company will continue to monitor the Group's financial performance and position as well as future capital requirements, but it currently proposes maintaining the Company's progressive ordinary dividend policy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ESG creates shared value for our stakeholders and supports the symbiotic relationship between the Company and the people and communities it serves. In accordance with our Corporate Strategy, we are striving to embed into our business and operations three primary ESG goals: social inclusion, reducing greenhouse gas emissions, and promoting advancement and opportunity. We support social inclusion by, among other things, ensuring that all individuals – regardless of age, ability or socioeconomic status – can avail themselves of our services. We combat climate change and aim for a carbon-neutral future by reducing greenhouse gas emissions across our operations. We are also committed to creating opportunities for our staff, supply chain and communities as we continue to grow and expand our network.

Environmental Aspects

In August 2020, MTR issued a Green Bond under its new Sustainable Finance Framework to further support the Company's sustainable development. The US$1.2 billion 10-year bond was issued to fund projects that conserve energy, protect the environment, and enhance and expand low-carbon railway services. It was the largest single tranche green bond for corporates in Asia Pacific. The bond won Hong Kong's "Best Green Bond" Award and, being at the forefront of raising sustainable financing, the Company was also named the "Best Issuer for Sustainable Finance" in Hong Kong in The Asset Triple A Country Awards 2020.

To help conserve our planet's natural resources, we continued to reduce electricity consumption across all our businesses. We also supported the development of renewable energy in Hong Kong through the installation of a 93.24 kW solar energy system at our headquarters to start with. Actions like these will help Hong Kong achieve its target of becoming carbon neutral in the future.

Social Aspects

As an integral part of the wider Hong Kong community, MTR gives back through charitable and social programmes designed to nurture future generations and help those in need. In the face of COVID-19, we launched special economic relief measures including fare rebates for passengers and rental concessions for mall and station tenants. Our Board and Executive Directorate donated HK$4.3 million of their remuneration to NGOs and charity organisations to help communities during the pandemic. We donated 100,000 surgical masks at a time when supply was tight, and we also set up vending machines at 20 stations where members of the public could conveniently pick up COVID-19 specimen collection packs. Since March 2020, we have been providing free Airport Express tickets through the Hospital Authority to healthcare workers who need to travel between AsiaWorld-Expo Station and the urban area. Over 16,900 tickets had been provided as at the end of January 2021. We also donated 200 tablet devices to underprivileged children to facilitate their online learning.

Online hosting helped us carry out our social outreach efforts safely. These included our "'Train' for Life's Journeys" career- and life-coaching programmes; "Summer Online Railway Workshops", which introduced railways to children on summer break through fun activities; and "Christmas Delight" workshops, which featured Christmas carol performances in sign language and DIY musical instrument upcycling classes to promote social inclusion and green practices. MTR also hosted talks at senior centres and launched its annual elderly programme with RTHK to promote railway safety to seniors across the territory.

In 2020, we were once again privileged to promote artistic talent and art appreciation among the public. We installed new artworks in Wan Chai, Tiu Keng Leng and Tuen Ma Line Phase 1 stations and organised exhibitions at Sheung Wan, Sai Wan Ho and Central stations. One highlight was a memorial exhibition for legendary singer Teresa Teng, which received an enthusiastic response from the community.

Through our "More Time Reaching Community" Scheme, we encourage our staff to initiate and participate in volunteer activities that serve the community. In 2020, despite the prolonged COVID-19 pandemic, 64 volunteering projects were organised involving a total of 6,344 volunteer hours of service, including those offering timely support to help underprivileged families ride out the difficulties.

Our ESG efforts were recognised with "Outstanding Corporation" awards in the "Social Sustainability" and "Environmental Sustainability" categories of Metro Finance's Greater Bay Area Corporate Sustainability Awards 2020. We were awarded the "15 Years Plus Caring Company Logo" by the Hong Kong Council of Social Service in recognition of our care for the community, the environment and our staff. The commitment of our staff in contributing to the community was also reflected in their donations to a variety of charitable causes. We received the "Diamond Award", "4th Top Fund-raiser Award" and "3rd Highest Donation Award for CARE Scheme" in The Community Chest's 2019/2020 Corporate and Employee Contribution Programme. We were also named the "Grand Winner – COVID-19 Special Award (Corporate)" and received other awards in the HR Appreciation Awards 2020 organised by Classified Post.

Governance

Achieving the goals set out in our Corporate Strategy requires having a strong governance framework in place that safeguards the best interests of MTR, its shareholders and stakeholders. We regularly review our businesses to ensure we are operating according to the highest standards of corporate governance and best practices in areas such as functioning of the Board and Enterprise Risk Management.

ACKNOWLEDGEMENTS AND APPRECIATION

We greatly value the counsel of those with the wisdom to help us navigate calm and rough waters alike. I am grateful to my fellow members of the Board for their support in these challenging times.

I would like to thank once again Dr Allan Wong Chi-yun, who retired from the Board as an Independent Non-executive Director on 20 May 2020, Mr James Henry Lau Jr, who resigned as a Non-executive Director with effect from 1 June 2020, and Ms Mable Chan, who ceased to be a Non-executive Director with effect from 1 August 2020. I would also like to welcome once more Dr Bunny Chan Chung-bun, who was appointed as an Independent Non-executive Director of the Board effective 20 May 2020, and Mr Christopher Hui Ching-yu, the newly appointed Secretary for Financial Services and the Treasury, who was appointed as a Non-executive Director effective 1 June 2020. Finally, I would like to welcome Miss Rosanna Law Shuk-pui, the newly appointed Commissioner for Transport, who was appointed as a Non-executive Director with effect from 9 September 2020.

Many of the challenges of 2020 remain, but I truly believe that by working together, we can keep Hong Kong and all the cities we serve moving, ushering them into a future full of hope and prosperity once again. Our talented people have a strong commitment to the city they call home, and I feel exceptionally proud to be part of the MTR family.

Rex Auyeung Pak-kuen
Chairman
Hong Kong, 11 March 2021

CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

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

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

CORPORATE STRATEGY: "TRANSFORMING THE FUTURE"

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

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

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

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

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

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

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

COVID-19 AND THE "NEW NORMAL"

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

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

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

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

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

2020 POLICY ADDRESS AND RDS 2014

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

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

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

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

OVERCOMING CHALLENGES ENCOUNTERED

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

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

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

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

BUSINESS HIGHLIGHTS AND PERFORMANCE

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

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

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

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

Your Board has proposed a final ordinary dividend of HK$0.98 per share, which together with the interim dividend of HK$0.25 per share brings the full-year dividend to HK$1.23 per share, same as that of 2019.

HONG KONG BUSINESSES

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

Transport Operations

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

n/m: not meaningful

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

Patronage and Revenue

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

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

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

Market Share

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

Fare Adjustment, Promotions and Concessions

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

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

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

Service Performance

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

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

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

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

Enhancing the Customer Service Experience

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

Boosting Passenger Convenience

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

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

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

Greater Comfort for Passengers

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

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

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

Enhancing Station Facilities

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

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

Smart Mobility to Enhance Customer Journeys

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

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

Smart Operations and Maintenance

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

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

Station Commercial Businesses

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

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

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

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

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

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

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

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

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

Property Businesses

Property Rental and Management

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

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

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

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

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

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

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

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

Property Development and Tendering

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

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

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

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

GROWING OUR HONG KONG BUSINESSES

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

Shatin to Central Link

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

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

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

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

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

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

Other New Railway Projects

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

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

Expanding the Property Portfolio

Investment Properties

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

Residential Property Development

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

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

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

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

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

	Mainland of China and International Businesses								
	Mainland of China and Macao Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
Year ended 31 December HK$ million	**2020**	2019	Inc./(Dec.) %	**2020**	2019	Inc./(Dec.) %	**2020**	2019	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**1,836**	1,881	(2.4)	**19,592**	19,204	2.0	**21,428**	21,085	1.6
EBITDA	**224**	529	(57.7)	**309**	796	(61.2)	**533**	1,325	(59.8)
EBIT	**212**	517	(59.0)	**49**	572	(91.4)	**261**	1,089	(76.0)
EBIT (Net of Non-controlling Interests)	**212**	517	(59.0)	**61**	412	(85.2)	**273**	929	(70.6)
EBITDA Margin (in %)	**12.2%**	28.1%	(15.9)% pts.	**1.6%**	4.1%	(2.5)% pts.	**2.5%**	6.3%	(3.8)% pts.
EBIT Margin (in %)	**11.5%**	27.5%	(16.0)% pts.	**0.3%**	3.0%	(2.7)% pts.	**1.2%**	5.2%	(4.0)% pts.
Recurrent Business Profit/(Loss)	**174**	**472**	**(63.1)**	**(4)**	**200**	**n/m**	**170**	**672**	**(74.7)**
Associates and Joint Venture									
Share of EBIT	**844**	1,005	(16.0)	**63**	(403)	n/m	**907**	602	50.7
Share of Profit/(Loss)	**363**	**457**	**(20.6)**	**61**	**(403)**	**n/m**	**424**	**54**	**685.2**
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	**1,056**	1,522	(30.6)	**124**	9	1,277.8	**1,180**	1,531	(22.9)
(Loss)/Profit Attributable to Shareholders of the Company									
– Arising from Recurrent Businesses (before Business Development Expenses)							**594**	**726**	**(18.2)**
– Business Development Expenses							**(183)**	(201)	(9.0)
– Arising from Recurrent Businesses (after Business Development Expenses)							**411**	**525**	**(21.7)**
– Arising from Mainland of China Property Development							**65**	49	32.7
– Arising from Underlying Businesses							**476**	**574**	**(17.1)**

n/m: not meaningful

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

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

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

Excluding Mainland of China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint venture outside of Hong Kong, contributed a net after-tax profit of HK$411 million in 2020 on an attributable basis. This represented a decrease of 21.7% compared with 2019.

Railway Businesses in the Mainland of China

Beijing

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

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

Shenzhen

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

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

Hangzhou

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

Property Businesses in the Mainland of China

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

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

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

Macao Railway Business

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

Europe Railway Business

United Kingdom

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

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

Sweden

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

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

Australia Railway Business

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

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

Growth Outside of Hong Kong

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

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

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

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

FINANCIAL REVIEW

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

Profit and Loss

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

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

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

n/m: *not meaningful*

Total Revenue

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

Recurrent Business Loss

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

EBIT

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

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

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

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

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

Share of Profit of Associates and Joint Venture

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

Property Development Profit (Post-tax)

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

Investment Property Revaluation Loss

Revaluation of the Group's investment properties in Hong Kong and Mainland of China, which was performed by independent professional valuation firms, resulted in a revaluation loss of HK$9,190 million in 2020, compared to a revaluation gain of HK$1,372 million in 2019. The revaluation loss, being a non-cash item, mainly reflected the decrease in reversionary rent as a result of the COVID-19 and the deterioration of general economic environment.

Net Loss Attributable to Shareholders of the Company

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

Financial Position

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

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

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

Net Assets

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

Total Assets

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

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

Total Liabilities

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

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

Gross Debt and Cost of Borrowing

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

Net Debt-to-equity Ratio

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

Cash Flow

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

#: *Excluding effect of exchange rate change*

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

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

Net Receipts from Property Development

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

Other Net Cash Outflow from Investing Activities

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

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

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

Safety

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

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

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

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

Enterprise Risk Management

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

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

HUMAN RESOURCES

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

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

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

MTR ACADEMY

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

OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

HONG KONG
TRANSPORT OPERATIONS

Composite photograph at Kai Tak Station

45% Fewer Reportable Events

99.9% Passenger Journeys On-time

3.88 million Average Weekday Patronage

AIM

We strive to be an internationally-recognised company that connects and grows communities with caring, innovative and sustainable services. We also seek to generate returns that enable us to invest in our world-class rail network, further improve our high levels of service, and continue meeting the ever-changing needs and expectations of our customers. These investments involve upgrading and replacing our existing railway assets, as well as constructing new railway lines that reduce travel times and bring communities closer together – enabling us to develop networks that support Hong Kong's future growth as an economy and a society.

CHALLENGES

- Maintaining high levels of health, safety and reliability during the COVID-19 pandemic
- Patronage affected by social restrictions, work-from-home arrangements and border closures
- Managing major asset upgrades and replacements without compromising our safety and service performance or the customer experience

STRATEGIES

- Adjust and optimise train services, apply cost control measures, and employ further smart operating, smart maintenance and automation initiatives with a customer centric mindset to alleviate the impact of reduced patronage due to COVID-19
- Intensify cleaning and sanitisation procedures and introduce leading-edge technologies to ensure station and train cleanliness. Manufacture and provide personal protective equipment for the health and safety of our staff and customers
- Launch promotions that encourage travel during non-peak hours and promote domestic leisure travel via MTR. Leverage MTR Mobile to encourage usage of our services
- Maintain high performance standards that exceed the targets set out in the Operating Agreement and our own even more demanding Customer Service Pledges. Continue our stringent maintenance regime and invest significantly in renewing and upgrading our railway assets
- Leverage our strong culture of safety to deliver operational excellence. Equip staff with clear guidelines and sound training in operations and customer service, and raise public awareness of rail safety through targeted campaigns and information
- Integrate innovation and technology into our operations to drive customer service excellence and fuel future growth
- Work to digitise our own internal processes, enhancing the customer experience and optimising operations and workflow

OUTLOOK

The COVID-19 pandemic could have profound long-term effects in terms of how customer behave. Travel restrictions and boundary closures have led to an almost complete halt to Hong Kong visitation by travellers from the Mainland of China and overseas, dramatically impacting our Airport Express and High Speed Rail ("HSR") patronage. Domestic patronage for our heavy and light rail networks has decreased due to quarantine measures, work- and study-from-home arrangements, and lower in-store spending by shoppers. These conditions are expected to continue to varying degrees well into 2021.

As one of the leading operators in the railway business, we will continue to do our utmost to ensure that our stations, trains and facilities meet the highest standards of cleanliness and sanitisation, thereby providing peace of mind during passenger journeys. We will also keep striving for excellence in service reliability and safety, maintaining world-class operational standards as we move closer to the full line opening of the Tuen Ma Line.

Our Corporate Strategy outlines the way forward for MTR and its transport operations. We will seek to achieve sustainable business results by adhering to strong environmental, social and governance principles that foster mutually beneficial growth in our communities. In 2021, this will include driving patronage by reviewing our scheduling and fares while remaining sensitive to the latest Government guidelines and prevailing economic conditions. MTR Mobile will enhance the customer experience by making it easier to plan trips. As always, providing comfortable, caring and inclusive customer service will remain a key focus.

SAFETY

Safety is always our highest priority. This year there was a 45% decrease in reportable events compared to the same period in 2019. The number of reportable events per million passengers carried on our heavy rail and light rail networks continued to improve, falling to 0.58 in 2020. While we achieved solid passenger safety performance in 2020, it must be noted that the number of reportable events in the previous year was skewed by the public order events. Further details about our safety performance can be found in the Ten-Year Statistics of this Annual Report.

The Escalator Safety Special Task Force continued to organise programmes following accidents to help prevent similar occurrences in future. The Task Force also took a number of proactive measures to educate the public on the importance of escalator safety, setting up Escalator Safety Promotion Booths at various stations and organising Escalator Safety Walks throughout the year. May saw the launch of the Escalator Safety Campaign 2020 featuring MTR Ambassador T Chai. In addition, new safety labels were placed on all escalators in Kowloon Bay, Nam Cheong and Causeway Bay stations on a trial basis.

The Platform Gap Incident Special Task Force made a number of site visits throughout the year to identify improvement opportunities and platform gap incident control measures. In addition to the various measures we already have in place to raise passenger awareness, we also held an internal promotional campaign during the year to convey the importance of the issue to staff and encourage them to proactively remind passengers.

To enhance safety in our Light Rail operations, we installed smart flashing bollards with highly visible flashing yellow strips at pedestrian crossings at two Light Rail locations. We implemented our innovative Integrated Speed and Position Supervision System, which helps improve operational safety and efficiency by monitoring light rail vehicle speed in real time.

PATRONAGE AND REVENUE

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

Total patronage for all our rail and bus passenger services in 2020 decreased by 31.5% to 1,310.8 million passenger trips. This was attributed to the COVID-19 pandemic and its effects on both the domestic and tourist markets, which were negatively impacted by anti-pandemic measures, cross-boundary service closures, international travel restrictions and overall economic decline.

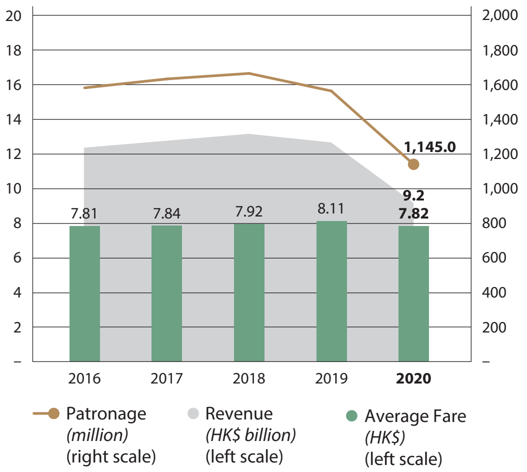
Our Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and South Island lines as well as Tuen Ma Line Phase 1) recorded total patronage of 1,145.0 million in 2020, which was 27.0% lower than the previous year.

Patronage for the Cross-boundary Service to Lo Wu and Lok Ma Chau decreased by 92.7% to 7.6 million. This was attributed to the drastic reduction in travellers from the Mainland of China following the COVID-19 outbreak and subsequent boundary closure. HSR patronage was 1.0 million, a 93.9% decrease compared to 2019. Airport Express patronage decreased by 80.5% to 3.1 million as a result of the steep drop-off in air travellers.

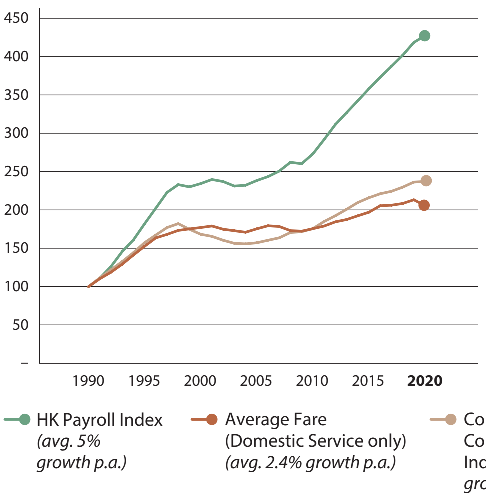
Average weekday patronage for all our rail and bus passenger services decreased by 30.9% to 3.88 million passenger trips. Our Domestic Service saw a 26.9% decrease to 3.41 million.

To stimulate ridership in response to the challenges posed by the COVID-19 pandemic, we have been launching promotions such as the Early Bird Discount to promote non-peak travel. We have also been creating attractive fare, ticket and pass promotions, such as a 20% rebate on Octopus trips and HK$100 discounts on MTR City Saver and Monthly Pass Extras. We are leveraging our constantly evolving MTR Mobile to deliver these attractive promotions and other information to users. More than ever, we have been regularly reviewing our train schedules to account for demand fluctuations and ensure customer convenience. We are also seeking to promote MTR to domestic users as the preferred transit method for exploring the numerous travel and sightseeing opportunities within Hong Kong.

Domestic Service – Patronage and Average Fare



Fare Trend



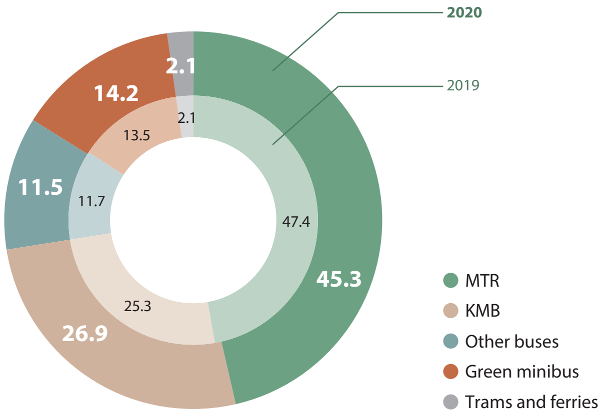
MARKET SHARE

Our overall share of the franchised public transport market in Hong Kong was 45.3% compared to 47.4% in 2019. This decline was mainly due to the precipitous drop in patronage owing to the COVID-19 pandemic for Cross-boundary Service, HSR and Airport Express, in which we have a relatively higher market share than other franchised transport operators. Our share of cross-harbour traffic was 66.1% against the 67.5% recorded in 2019.

In 2020, our Cross-boundary and HSR service registered a decrease in market share of cross-boundary business to 47.2% from 51.3%. Our market share to and from the airport decreased to 16.3% from 20.5%.

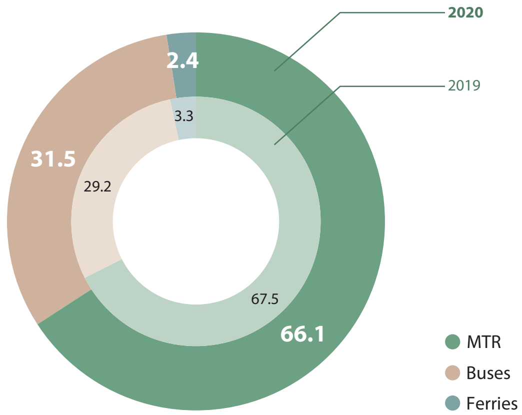
Market Shares of Major Transport Operators in Hong Kong

(Percentage)



Market Shares of Major Transport Operators Crossing the Harbour

(Percentage)



FARE ADJUSTMENTS, PROMOTIONS AND CONCESSIONS

In accordance with the Fare Adjustment Mechanism ("FAM"), the overall adjustment rate of MTR fares for 2019/2020 was +3.3%. However, MTR introduced a 3.3% rebate for every Octopus trip valid from 30 June 2019 to 4 April 2020, meaning passengers using Octopus effectively paid no actual fare increase. The +0.3% fare adjustment for the announced 2019/2020 FAM that was not implemented may also be recouped in 2021/2022, subject to the provisions of the FAM.

In March 2020, we announced the fare adjustment rate for 2020/2021 is +2.55% according to the FAM. In view of the Affordability Cap owing to the negative growth of Median Monthly Household Income, there is no fare increase for 2020, and +2.55% may be recouped over the subsequent two years, with +1.28% to be recouped in 2021/2022 and +1.27% to be recouped in 2022/2023. Such recoupments will be made subject to the provisions of the FAM.

We also announced in March 2020 an extension of the 3.3% rebate to 1 January 2021 as part of a promotional package for 2020/2021. Other promotions included setting no price adjustment for the MTR City Saver and Tuen Mun-Nam Cheong Day Pass until 1 January 2021; setting no price adjustment for Monthly Pass Extras until December 2020 (which, as announced in November 2020, was further extended to June 2021); and extending the Early Bird Discount Promotion until 31 May 2021. In 2020, we offered HK$1.7 billion in on-going fare concessions to the elderly, children, students and persons with disabilities.

In April 2020, MTR announced a six-month package of one-off relief measures, effective 1 July 2020 to 1 January 2021, to help people across the city deal with the adverse economic effects of COVID-19. These included a 20% rebate on every Octopus trip, a substantial increase over the 3.3% rebate previously being offered. Other relief measures included a HK$100 discount on MTR City Saver and a HK$100 discount on Monthly Pass Extras (from July to December 2020). Following the announcement of the extension of these relief measures in November 2020, the 20% rebate will be effective till March 2021, and the discounts on MTR City Saver and Monthly Pass Extras will be effective till June 2021. Government agreed to bear half of the total actual revenue forgone arising from these measures during the period between July 2020 and March 2021.

SERVICE PERFORMANCE

Despite the difficult circumstances presented by the COVID-19 pandemic, train service delivery and passenger journeys on-time for our heavy rail network both remained at 99.9% in 2020, exceeding the targets set in our Operating Agreement and our own even 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. Passenger journeys on-time is a measure of all passenger journeys that are completed within five minutes of their scheduled journey times.

In 2020, more than 1.78 million train trips were made on our heavy rail network and more than 1 million trips were made on our light rail network. There were eight delays on the heavy rail network and no delays on the light rail network, respectively, defined as those lasting 31 minutes or more and attributable to factors within the Company's control. The light rail network continued its record dating back to 2019 of no delays lasting 31 minutes or more and attributable to factors within the Company's control.

On 11 September 2020, we announced a delay in the commencement of the new signalling system and gradual introduction of new trains on the East Rail Line in order to properly resolve the route recall situation, which has no impact on safety. An Investigation Panel was convened and an investigation report was submitted in January 2021. Safety has been reaffirmed by the technical investigation, which showed that the concerned issue was caused by a non-safety-critical software module being overloaded by a new software module specifically built for the Company to provide extra train monitoring information to the Operations Control Centre. The contractor resolved the issue by upgrading the software and stopping the new software module. Following satisfactory completion of all further testing and approvals from relevant Government departments on the safe and sound condition of the new signalling system and new trains, the new signalling system and trains were commissioned on 6 February 2021.

On 3 March 2020, MTR released to the public the investigation report detailing the train derailment that occurred in September 2019 when three cars of a Hung Hom-bound East Rail Line train shifted out of their positions on the track, causing the fourth and fifth cars to separate. Investigators concluded that the derailment was caused by dynamic track gauge widening at a turnout near Hung Hom station. Following the release of the report, the Company took immediate actions according to the recommendations of the panel to prevent similar incidents from occuring again in future.

To gauge customer satisfaction levels concerning our services and fares, we carry out regular surveys and research, the results of which are published in our Service Quality Index and Fare Index, respectively.

Service Quality Index	2020	2019
Domestic and Cross-boundary services	**64^**	66
Airport Express	**N/A***	79
Light Rail	**62**	58
Bus	**75**	68
HSR	**N/A***	83

Fare Index	2020	2019
Domestic and Cross-boundary services	**59^**	56
Airport Express	**N/A***	70
Light Rail	**61**	58
Bus	**74**	66
HSR	**N/A***	78

^ *This only measured Domestic Service as the Cross-boundary services of Lo Wu and Lok Ma Chau were closed from early February 2020.*

* *The Voice of Customer surveys for Airport Express and HSR in 2020 were suspended due to the outbreak of the COVID-19 pandemic in 2020.*

MTR is one of the participants in The Community of Metros ("CoMET"), which comprises 20 metro systems around the world to benchmark performance and improve practices across the industry. In 2019, our performance was greatly affected by the public order events and saw unfavourable change in some of the key performance indicators. The 2019 CoMET benchmarking results can be found in the "Performance Metrics" section of our sustainability website.

Operations Performance in 2020

Service Performance Item	Performance Requirement	Customer Service Pledge Target	Actual Performance
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	700,000	**5,267,876**
– East Rail Line (including Tuen Ma Line Phase 1) and West Rail Line	N/A	700,000	**8,877,544**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Tuen Ma Line Phase 1) and West Rail Line	N/A	10,500	**34,919**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.8%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line (including Tuen Ma Line Phase 1)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
– Light Rail^	N/A	N/A	**N/A**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability*	N/A	N/A	**N/A**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Tuen Ma Line Phase 1)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26ºC	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27ºC for platforms and 29ºC for station concourses, except on very hot days	N/A	93.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every two days (on average)	N/A	99.0%	**100.0%**
Northwest transit service area bus service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within six working days	N/A	99.0%	**100.0%**

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

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

ENHANCING THE CUSTOMER EXPERIENCE

Delivering a world-class customer experience is one of the hallmarks of MTR and a major focal point of our Corporate Strategy as we seek to constantly improve the comfort and utility of our services for passengers from all walks of life. During the year under review, we invested more than HK$10.9 billion to maintain, upgrade or replace our Hong Kong railway assets.

Boosting Passenger Convenience

New Line Openings

On 14 February 2020, MTR opened Phase 1 of the Tuen Ma Line, commencing services at the new stations of Hin Keng Station and Kai Tak Station, as well as the expanded section of Diamond Hill Station. Passengers travelling on the former Ma On Shan Line can now travel to Kai Tak Station in East Kowloon via Hin Keng and Diamond Hill stations without needing to interchange. To celebrate the launch, we offered a special fare promotion for passengers. The average daily usage of these three stations from opening to the end of 2020 was 125,000 passengers.

During the year, the frequency of our train services was affected by COVID-19 and the implementation of work-from-home arrangements, social distancing measures and travel restrictions. In response, we adjusted our scheduling in a timely manner according to the latest situation to meet fluctuating passenger demand and deliver the highest level of service convenience.

Greater Comfort for Passengers

New Trains

MTR ordered 93 new heavy rail eight-car trains earlier, nine of which had been delivered as at the time of writing. Two more are scheduled to be delivered by early 2021. Testing and commissioning continue with the aim of retiring older trains before their life expiry.

New Light Rail Vehicles

We ordered 40 new light rail vehicles to retire older vehicles and meet increasing demand for light rail services. Two of these light rail vehicles were put into service in November 2020. As at the end of 2020, eight more had been delivered and were undergoing testing and commissioning. By 2023, we expect the size of our light rail fleet to be expanded to 150.

Replacement of Air Conditioning Systems

Work to replace approximately half our chillers with newer, more energy-efficient models continued throughout our stations and depots this year. We completed Phase 3 in November 2020; a total of 92 chillers in 18 stations and four depots have now been replaced. Phase 4 began in fourth quarter 2020, which involved the replacement of another 32 chillers in eight stations and one depot and is expected to be completed in April 2021. The completion of all phases of work is expected in 2023, at which time passengers will be able to enjoy even more comfortable train and station environments.

Upgrading of Signalling System

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

Enhancing Station Facilities

During the year, we continued our efforts to make the passenger experience as comfortable and convenient as possible. In February 2020, new public toilets and baby care rooms were opened at the stations along the newly opened Tuen Ma Line Phase 1, followed by openings at Yau Ma Tei Station in June 2020 and North Point Station in September 2020. New toilet and baby care rooms are scheduled to be opened at Tsim Sha Tsui Station by 2022. New external lifts and escalators were provided to further improve barrier-free access at stations. Over 100 passenger lifts across the network have now been equipped with "contactless" lift button sensors to protect our customers during the pandemic.

To cater for growing passenger demand for public drinking water facilities, support environmental protection and support Government in its pursuit of related policies, we continued to install drinking water dispensers at selected stations throughout the year. Seven newly installed dispensers were put in service in 2020. We plan to have water dispensers installed at 18 stations by 2022.

To meet the needs of Hong Kong's growing aged population, we installed a number of extra seats in concourses and on platforms to provide more places to rest. We also completed the repainting of platforms and replacement of platform seats at 17 light rail stops during the year for improved station environment and comfort. Works for remaining light rail stops are scheduled to be completed by 2025.

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

Enhancing Customer Journeys Through Technology

Smart Mobility

New innovations and technologies are cornerstones of our future growth as we fully implement our Corporate Strategy. In May 2020, we launched a new version of MTR Mobile to provide customers with railway and other transport information and functions, as well as news and offers from MTR Malls and MTR Shops plus a variety of lifestyle content. The app also features the MTR Points loyalty scheme whereby customers can earn and redeem MTR Points.

In August 2020, MTR Mobile's "Next Train" function was extended to the light rail network. Passengers may now check the estimated arrival times for up to five routes at each platform of any light rail stop, in real time.

In October 2020, the app's "Trip Planner" was improved to recommend up to three journey options, each supplemented with estimated travel times, interchange walking times and numbers of interchanges. "Traffic News" was also enhanced to inform passengers of any service disruptions based on their pre-set route via push notifications.

MTR is also committed to offering the latest in smart mobility. A number of initiatives were introduced in 2020 to digitalise and automate customer touchpoints and deliver a smarter, more seamless travel experience. For example, passengers can purchase monthly passes in advance via MTR Mobile and avoid queuing in stations. Students may now use the app to renew their "Student Status" on their Octopus cards and continue enjoying concessionary fares. Starting from 23 January 2021, a brand-new QR code payment service for the heavy rail network was launched, which enables passengers to tap entry and exit gates using a QR Code Ticket on MTR Mobile or EasyGo on AlipayHK.

Smart Operations and Maintenance

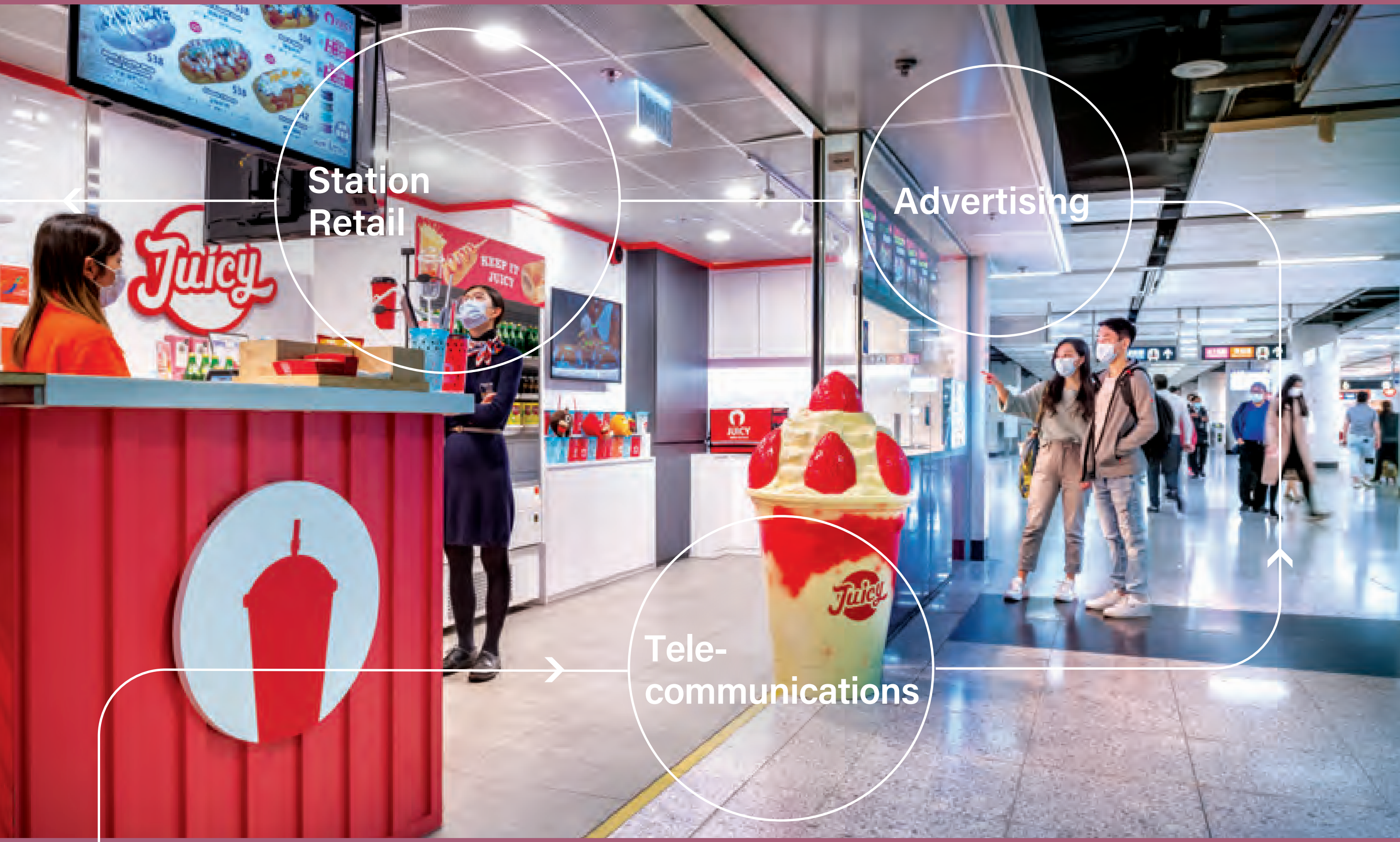
MTR continued to explore robotics and automation to improve the effectiveness and efficiency of a variety of maintenance and back-of-house processes. In the third quarter of 2020, we introduce five AI-powered "smart trainee" robots at Kai Tak Station to perform cleaning, inspection and customer relations tasks. In May, we launched the InnoEtronic invention zone and robotics co-working space at Kowloon Bay Depot, a strategic partnership with 13 local start-ups and industry solution experts. The project aims to support the development and application of innovative technologies for smart maintenance, inspire future innovators and provide a working space for them to develop proof-of-concept projects and trials.

Following its successful introduction at Pat Heung Depot, we expanded the use of the Automatic Air-conditioning Filter Cleaning Machine ("ACM") to Chai Wan depot. ACMs replace tedious manual cleaning and help standardise filter cleaning quality and efficiency. We also began trialling the Underframe Inspection Robot ("UIR") at Pat Heung Depot. The UIR adopts cutting-edge technologies, including image recognition, AI and precise motion control, to identify and report anomalies in the underframes of rolling stock. We also started trialling a Smart Train Roof and Pantograph Monitoring System at the Tuen Ma Line Phase 1, which automatically captures a complete image of the train pantograph and train roof and uses image recognition technology to identify potential anomalies and alert users to prevent further escalation of failure.

During the year, MTR introduced leading-edge smart asset management technologies such as blockchain, cloud computing and AI to streamline its supply chain, improve workflow and collaboration, and optimise train deployment and maintenance. We also continued to apply digital technology to improve our maintenance records and processes. MTR has also introduced a smart Track Dynamic Performance System on East Rail Line trains to monitor in real time the critical track geometry parameters and vibration measurements along the line, thereby facilitating predictive and prescriptive maintenance. In April 2020, we began using the Smart Forms mobile app to digitise maintenance information and records, resulting in faster and higher-quality maintenance works.

On the Light Rail, our innovative Integrated Speed and Position Supervision System was enhanced so that the speed of light rail vehicles can be monitored in real time, further improving operational safety and efficiency.

HONG KONG STATION COMMERCIAL BUSINESSES



49,519
Advertising Units

5G
Data Access in 40 Stations

1,529
Station Shops with **67,746m²**

AIM

We strive to deliver value-added services to our customers and business partners with a variety of offerings along our railway network, including a wide selection of station retail outlets as well as leading-edge, diverse advertising modes and telecommunications services.

CHALLENGES

Station Retail

- COVID-19 outbreak and subsequent economic downturn substantially affected tenant operations and retail sales, impacting the Company's station retail business
- Rental concessions provided to help tenants withstand station closures and reduced foot traffic resulted in a drop in rental revenue. For leases to be renewed, there was downward pressure on rentals due to market conditions, causing a further reduction in rental income

Advertising

- Revenue fell by more than 50% as advertising spending drastically shrank following COVID-19
- Traditional advertising formats continued to be challenged by online media

Telecommunications

- Telecoms infrastructure continued to be stretched by growing customer demand for faster, more sophisticated networks and wider coverage
- Reduced revenue from telecommunication operators resulted in downward pressure on contract renewal

STRATEGIES

Station Retail

- Foster strong tenant relations and attract new tenants by offering flexible as well as shorter-term rental agreements to help retail businesses – particularly small to medium enterprises – persevere through the economic downturn
- Help tenants leverage online-to-offline commerce and drive sales despite lower foot traffic and in-store shopping via offers with the MTR Mobile app and MTR Points loyalty programme
- Continue reviewing the station tenant mix to enhance customer appeal and drive rental revenue
- Continue introducing new brands into our station shops

Advertising

- Offer more targeted, aggressive and flexible sales packages as well as extra sales incentives to capture advertisers' limited advertising budgets
- Continue to integrate digital formats into our advertising mix to target online budgets and increase the media value and appeal of our media offerings with digital solutions, driving new growth areas as per our Corporate Strategy

Telecommunications

- Continue working with telecom operators to upgrade data network capacity and launch 5G across our railway network to enhance mobile communications for our customers

OUTLOOK

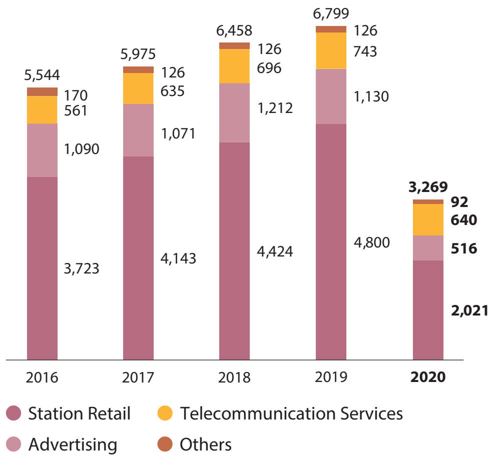
The COVID-19 pandemic will continue to have significant impacts on our station retail tenants and rental revenue in 2021 as consumer sentiment is expected to remain sluggish in the near term. Our station retail businesses may see continuing challenges in rentals resulting from the aftermath of last year's negative rental reversions as well as the accounting standard requirement to spread last year's rental rebates into 2021 and beyond. Our duty free business recovery will depend completely on the timing of the re-opening of borders and the recovery of border patronage. In the longer term, we are still well positioned for growth as more lines and stations are added to our Hong Kong network, which will bring more passengers through our stations and increase the prospect of more rental revenue from tenants.

Our advertising income will be dependent on economic recovery and retail spending. To capture clients' advertising budgets, we will continue to incorporate more digital formats in our advertising portfolio to keep up with consumer demand for dynamic, flexible and targeted offers as well as online and mobile commerce.

We will also continue to work with telecommunications providers to upgrade our networks and ensure that we are delivering the best possible service for our passengers.

Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



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

STATION RETAIL

Rental concessions and the closure of duty free shops in border stations resulted in a 57.9% decrease in station retail rental revenue to HK$2,021 million.

In addition to rental concessions granted to tenants affected by the suspended cross-boundary rail services, we offered rental relief to small to medium tenants in other station shops by granting half-month reductions of their rents from February to April 2020, underscoring our commitment to society and our support of local businesses in difficult times. Rental relief for large corporations was considered on a case-by-case basis. From May to December 2020, we continued offering rental relief to all tenants. Rental reversion and average occupancy rates in 2020 for our station kiosks were approximately -8% and 98.3%, respectively.

During the year, the Company continued to employ innovative marketing promotions to stimulate retail activity. The MTR Mobile app's MTR Points loyalty scheme, introduced in May 2020, encourages customers to make purchases at designated station shops and MTR Malls and redeem gifts with earned MTR Points. We also launched promotional campaigns from time to time, including special offers from station shops to boost sales. Meanwhile, our two "v-smart" unmanned automated station shops at Kowloon and Tsing Yi stations continued to offer customers a new retail experience. In 2020, 22 new brands were introduced to our network.

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

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

As at 31 December 2020, there were 1,529 station shops occupying 67,746 square metres of retail space, representing an increase of 37 shops and 409 square metres of lettable space when compared with 31 December 2019. The increases were mainly due to the openings of shops at the new Hin Keng Station, Kai Tak Station, and the expanded Diamond Hill Station along the Tuen Ma Line Phase 1 as well as Admiralty and Kowloon stations.

To help non-governmental organisations and social enterprises provide services for the community, we rent them certain station shops along the West Rail Line and other lines at a nominal rate. In 2020, a total of nine station shops were leased on this basis.

ADVERTISING

Revenue from advertising decreased by 54.3% to HK$516 million as a result of the COVID-19 outbreak, leading to steep declines in tourism and retail sales and causing advertisers to postpone or cancel campaigns.

As at 31 December 2020, the number of advertising units in stations and trains had increased to 49,519. This year we installed a new 108" LED concourse network along Island Line and Kwun Tong Line and two new trackside 108" LED zones at Central Station and Tsim Sha Tsui Station. We also launched a new 86" 4K resolution digital panel network along East Rail Line, Tuen Ma Line Phase 1 and West Rail Line. New advertising provisions were also available after the opening of the Tuen Ma Line Phase 1.

To drive business for our advertisers, we launched online-offline advertising modes with sales packages bundling our MTR Mobile app and station advertising platforms. We also collaborated with advertisers on various promotional activities via MTR Mobile's loyalty programme.

In 2020, MTR provided free advertising space to 64 non-profit organisations to help promote their services.

TELECOMMUNICATIONS

Telecommunications revenue decreased by 13.9% to HK$640 million in 2020. This was attributed to the special fee concession given during the COVID-19 pandemic and subsequent economic downturn as well as the revised fee due to contract renewal.

Our new commercial telecom system project continued during the year, with 26 of 31 stations completed as at 31 December 2020. Also as at year-end, 5G services had been launched at 40 stations by some telecom operators.

HONG KONG PROPERTY AND OTHER BUSINESSES

Over **23,000**
Residential Units
and **2 Shopping Malls**
Under Development

14
Shopping Malls
in Our Portfolio

Managing Over
111,000
Residential Units

AIM

We aim to create shareholder value by maximising our assets through exploring property development, rental, management and acquisition opportunities, creating integrated, inclusive communities along our world-class rail network. We also strive to provide excellent service for these projects by applying our expertise in all aspects of property development and management as well as engaging the community.

CHALLENGES

Property Rental

- COVID-19 caused steep declines in tourist traffic and domestic spending, negatively impacting our mall rental business
- Work-from-home arrangements and the weak economic environment curbed business expansion and office demand
- The rise of e-commerce continues to affect consumer behaviour and retail space demand and drive business toward online shopping, particularly in response to the pandemic

Property Management

- Statutory changes in licensing, procurement and maintenance are impacting the residential property management industry in Hong Kong

Property Development

- COVID-19 continues to disrupt the global economy and create fluctuations in capital flow

STRATEGIES

Property Rental

- Continue to support tenants, especially small to medium enterprises, with rental concessions and flexible lease arrangements in order to further build long-term relationships and maintain occupancy
- Remain keenly attuned to the business difficulties faced by our mall tenants, particularly those operating in food and beverage and discretionary segments, by working together on collaborations such as loyalty and redemption programmes
- Widen the targeted trades in our malls to further diversify our offerings

Property Management

- Continue implementing anti-pandemic measures at our estates, buildings and malls to ensure health and safety
- Optimise costs by reviewing operational processes and expenditures
- Continue offering a world-class property management service that meets or exceeds customer requirements and expectations
- In line with the sustainability and environmental goals set out in the Corporate Strategy, develop and promote more green projects with greater energy efficiency for the health of our residents, tenants and communities

Property Development

- Continue leveraging our proven "Rail Plus Property" integrated development model as a competitive advantage for buyers seeking quality units with convenient transportation links
- Expand by seeking the rezoning of feasible existing railway sites for potential new developments
- Deliver property developments of a high standard, on time and within budget
- Continuously improve our standards through innovation and by capturing new development opportunities

Property Safety

- Safety at our construction sites, investment and managed properties, and adjoining railway facilities is our top priority

OUTLOOK

COVID-19 will continue to impact mall rentals as travel restrictions limit tourism to Hong Kong, especially from the Mainland of China, and work-from-home and social distancing policies curtail in-store spending by domestic consumers. In line with our Corporate Strategy, which emphasises new growth engines such as digital retail as a core growth pillar, we will seek to leverage our enhanced MTR Mobile app and new "MTR Points" loyalty programme to inform users of offers from mall tenants and drive online-to-offline sales. We will also analyse our trade mix to determine where we can further diversify our offerings into lifestyle to attract more mall traffic. Our shopping mall business will continue to face challenges in rentals resulting from the aftermath of last year's negative rental reversions as well as the spreading of last year's rental rebates into 2021 and beyond in accordance with accounting standard requirement. We look forward to opening the remaining shops of The LOHAS and our shopping centres in Tai Wai and Wong Chuk Hang (now named "The Southside") in 2023. The impact of COVID-19 on the asset valuation of our investment property portfolio may continue until market conditions are stabilised. Office rentals will remain under pressure as work-from-home arrangements and the weak economic environment dampen business expansion plans and office demand.

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

Revenue from property management is recurrent and dependent on the properties under management, which will increase as new projects are completed.

The health and safety of our customers, staff, tenants and residents is our number one priority. As we anticipate that the societal impacts of COVID-19 will last well into 2021, we will continue to take all necessary precautions to ensure hygiene in our estates, malls and office buildings.

PROPERTY RENTAL

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

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

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

As at 31 December 2020, the Company's attributable share of investment properties in Hong Kong was 257,692 square metres of lettable floor area for retail properties, 39,410 square metres of lettable floor area for offices and 18,905 square metres of property for other use.

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

During the year, the Company held marketing activities to drive traffic to malls and help tenants offset the adverse effects of COVID-19. Many of these were promoted via the upgraded MTR Mobile app, an integrated platform covering information on MTR Malls and MTR Shops, lifestyle content, and a new "MTR Points" loyalty scheme that allows customers to earn MTR Points for their purchases at designated MTR outlets and redeem them for special rewards.

In August and November 2020, we opened phases 1 and 2 of The LOHAS, a three-storey, 44,500-square-metre shopping centre at LOHAS Park that connects seamlessly with the LOHAS Park Station and nearby residential buildings. The LOHAS will be home to over 140 tenants and features Hong Kong's largest indoor ice rink, Tseung Kwan O's largest cinema and a family entertainment centre project that is the first of its kind in Hong Kong.

In 2020, the Company acquired the remaining economic interests in Telford Plaza II in Kowloon Bay and PopCorn 2 in Tseung Kwan O from New World Development Company Limited and Chow Tai Fook Enterprises Limited for a total consideration of HK$3 billion. We now hold 100% interest in both shopping centres. Repartitioning work for the fourth and fifth levels of Telford Plaza II has been completed, and all shops are now open.

Pursuant to MTR's environmental goals of reducing energy use in its investment property portfolio, the Company worked to install energy-efficient lighting, water pumps, air conditioning systems and chillers in our managed properties. In 2013, we set a target to reduce energy use in our investment properties portfolio by 12% by 2023. As of 2020, our Hong Kong investment property portfolio has already exceeded this target. Further information about our environmental efforts can be found in our Sustainability Report 2020.

Investment Property Portfolio in Hong Kong (as at 31 December 2020)

Location	Type	Lettable floor area (*sq. m.*)	No. of parking spaces	Company's economic interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping Centre	39,331	–	100%
	Car Park	–	993	100%
Telford Plaza II 7–8/F, Kowloon Bay, Kowloon	Shopping Centre	2,397	–	100%
Telford Plaza II 3–6/F, Kowloon Bay, Kowloon	Shopping Centre	19,057	–	100%
	Car Park	–	136	100%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping Centre	11,094	–	100%
	Car Park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping Centre	15,410	–	100%
	Wet Market	1,216	–	100%
	Kindergarten	2,497	–	100%
	Car Park	–	415	100%
Maritime Square 1, Tsing Yi	Shopping Centre	28,547	–	100%
	Kindergarten	920	–	100%
	Car Park	–	220	100%
	Motorcycle Park	–	50	100%
Maritime Square 2, Tsing Yi	Shopping Centre	6,448	–	100%
	Car Park	–	65	100%
	Motorcycle Park	–	21	100%
The Lane, Hang Hau	Shopping Centre	2,629	–	100%
	Car Park	–	16	100%
	Motorcycle Park	–	1	100%
PopCorn 2, Tseung Kwan O	Shopping Centre	8,456	–	100%
	Car Park	–	50	100%
PopCorn 1, Tseung Kwan O	Shopping Centre	12,174	–	50%
	Car Park	–	115	50%
	Motorcycle Park	–	16	50%
G/F, No. 308 Nathan Road, Kowloon	Shop Unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop Unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	–	100%
	Car Park	–	126	100%
International Finance Centre ("ifc"), Central, Hong Kong				
– Two ifc	Office	39,410	–	100%
– One and Two ifc	Car Park	–	1,308	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car Park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising Signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop Unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor Sports Hall	13,512	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop Unit	1,096	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car Park	–	54	100%
	Motorcycle Park	–	10	100%
	Park & Ride	–	450	100%
Elements, No. 1 Austin Road West, Kowloon	Shopping Centre	45,510	–	81%
	Car Park	–	898	81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach Terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping Centre	7,720	–	100%
	Car Park	–	67	100%
Royal Ascot, Fo Tan	Residential	2,784	–	100%
	Car Park	–	20	100%
Ocean Walk, Tuen Mun	Shopping Centre	6,083	–	100%
	Car Park	–	32	100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping Centre	9,022	–	100%
	Car Park	–	421	100%

Investment Property Portfolio in Hong Kong (at 31 December 2020) *(continued)*

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Hanford Plaza, Tuen Mun	Shopping Centre	1,924	–	100%
	Car Park	–	22	100%
Retail Floor and 1–6/F., Citylink Plaza, Shatin	Shopping Centre	12,154	–	100%
The Capitol, LOHAS Park, Tseung Kwan O	Shop Unit	391	–	100%
	Residential Care Home for the Elderly	2,571	–	100%
Le Prestige, LOHAS Park, Tseung Kwan O	Kindergarten	800	–	100%
	Car Park	–	2	100%
The Riverpark, No.8 Che Kung Miu Road, Shatin	Shop Unit	154	–	100%
	Kindergarten	708	–	100%
	Car Park	–	5	100%
Hemera, LOHAS Park, Tseung Kwan O	Kindergarten	985	–	100%
THE LOHAS, Tseung Kwan O	Shopping Centre	27,852	–	100%
	Kindergarten	1,141	–	100%
	Car Park	–	333	100%
	Motorcycle Park	–	33	100%

All Properties are held by the Company and its subsidiaries under Government Leases for over 50 years except for:

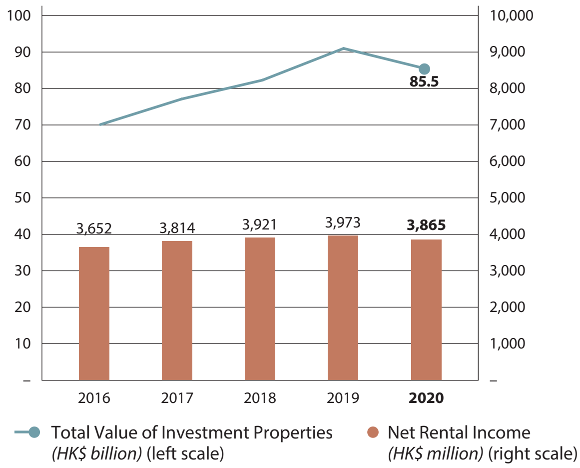
- *Telford Plaza I and II, Luk Yeung Galleria, Maritime Square 1 and 2, New Kwai Fong Gardens, ifc, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza where the Government Leases expire on 30 June 2047*
- *Choi Hung Park & Ride where the Government Lease expires on 11 November 2051*
- *The Lane where the Government Lease expires on 21 October 2052*
- *PopCorn 2 where the Government Lease expires on 27 March 2052*
- *LOHAS Park where the Government Lease expires on 15 May 2052*
- *Citylink Plaza where the Government Leases expire on 1 December 2057*
- *The Shop Units and Kindergarten of The Riverpark where the Government Lease expires on 21 July 2058*

Properties Held for Sale (as at 31 December 2020)

Location	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping Centre	6,026*	–	40%
	Car Park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car Park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	548**	–	1%
	Car Park	–	12	1%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Kindergarten	1,299	–	50%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle Park	–	5	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle Park	–	24	70%
Wings at Sea and Wings at Sea II, LOHAS Park, Tseung Kwan O	Residential	2,847***	–	20.1%
	Car Park	–	300	20.1%
	Motorcycle Park	–	46	20.1%
MALIBU, LOHAS Park, Tseung Kwan O	Residential	1,058***	–	47%
	Car Park	–	111	47%
LP6, LOHAS Park, Tseung Kwan O	Residential	5,238***	–	63.3%
	Car Park	–	479	63.3%
	Motorcycle Park	–	50	63.3%
The Palazzo, No. 28 Lok King Street, Shatin	Retail	2,000	–	55%
	Car Park	–	9	55%
	Motorcycle Park	–	5	55%
Festival City, No. 1 Mei Tin Road, Shatin	Car Park	–	79	100%
Lake Silver, No. 599 Sai Sha Road, Shatin	Car Park	–	2	92.88%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Car Park	–	2	87%

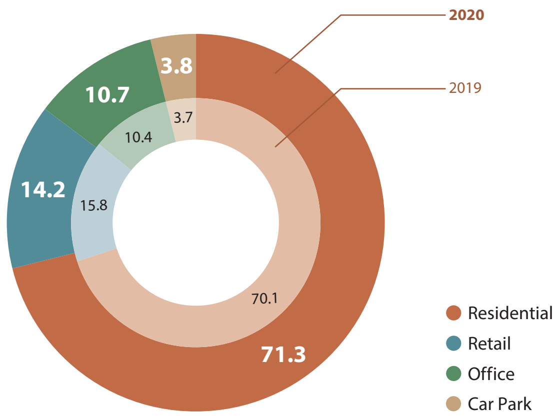
* *Lettable floor area*
** *Brochure gross floor area as per previously issued marketing brochures*
*** *Saleable area*

Investment Properties in Hong Kong



Distribution of Hong Kong Property Management Income

(Percentage)



EXPANDING THE RETAIL PORTFOLIO

We are opening two new malls that will add approximately 30% to the attributable GFA of our existing retail portfolio as of 31 December 2020 for a total of 107,620 square metres.

Tai Wai Shopping Centre

Construction of the 60,620-square-metre (GFA) shopping centre at Tai Wai Station continued to make progress in 2020. Construction of the basement and superstructure is in progress. The project is scheduled for completion in 2023.

The Southside

In January 2021, the Company announced the naming of the mall at Wong Chuk Hang as The Southside. Foundation works on the 47,000-square-metre (GFA) project continued, and it is on target for completion by the end of 2023.

PROPERTY MANAGEMENT

Property management revenue in Hong Kong decreased by 22.0% to HK$237 million compared to 2019. As at 31 December 2020, MTR managed more than 111,000 residential units and over 772,000 square metres of office and commercial space in Hong Kong.

PROPERTY DEVELOPMENT

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

Pre-sales

Despite the pandemic and economic downturn, our property development business is performing relatively well with satisfactory sales. Our property development projects at LOHAS Park and Tai Wai Station were received favourably by the market in 2020.

Property Development Projects	Pre-sales Launch Date	Units Sold as at 31 December 2020
The Pavilia Farm I (Tai Wai Station)	October 2020	97% of 783 units
The Pavilia Farm II (Tai Wai Station)	November 2020	95% of 1,415 units
SEA TO SKY (LOHAS Park Package 8)	June 2020	70% of 1,422 units
MARINI, GRAND MARINI and OCEAN MARINI (LOHAS Park Package 9)	August 2019, September 2019 and March 2020	97% of 1,653 units

Pre-sale for LP10 (LOHAS Park Package 10) commenced in January 2021.

Sales activities also continued for the Cullinan West III (Nam Cheong Station) and Sol City (Long Ping Station (South)) property development projects, where we act as agent for the relevant subsidiaries of the Kowloon-Canton Railway Corporation. As at 31 December 2020, 83% of the 1,172 units at Cullinan West III and 93% of the 720 units at Sol City were sold. The application for pre-sale consent for Yuen Long Station property development (Phase 1) is in progress.

Property Tendering

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

Future Development

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

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

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

Property Development Packages Completed during the year and awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Great Eagle Group	Residential	69,000	December 2016	2022
Package 2	Chinachem Group	Residential	59,400	October 2018	2024
LOHAS Park Station					
LP6	Nan Fung Group Holdings Limited	Residential	136,970	January 2015	2020
MONTARA and GRAND MONTARA	Wheelock and Company Limited	Residential Retail Kindergarten	70,260 44,500 1,160	June 2015	By phases from 2019 – 2021
SEA TO SKY	CK Asset Holdings Limited	Residential	97,000	October 2015	2021
MARINI, GRAND MARINI and OCEAN MARINI	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	By phases in 2021
LP10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Package 11	Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	88,858	April 2019	2025
Package 12	Wheelock and Company Limited	Residential	89,290	February 2020	2026
Package 13	Sino Land Company Limited, Kerry Properties Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	143,694	October 2020	2026
Tai Wai Station					
Tai Wai	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	By phases from 2022 – 2023
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2024
Wong Chuk Hang Station					
Package 1	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
Package 2	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2023
Package 3	CK Asset Holdings Limited	Residential Retail	92,900 47,000	August 2018	2024
Package 4	Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited	Residential	59,300	October 2019	2025
Package 5	New World Development Company Limited, Empire Development Hong Kong (BVI) Limited, CSI Properties Limited and Lai Sun Development Company Limited	Residential	59,100	January 2021	2026
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	2022

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

* *excluding a bicycle park with cycle track*

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

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
Wong Chuk Hang Station	Residential	46,800	2021	2027

Notes:

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

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

Progress of Property Development Packages Awarded

Location	Project Status: Design	Foundation Works	Superstructure
Ho Man Tin Station Package 1	Completed	In Progress	
Ho Man Tin Station Package 2	In Progress	In Progress	
LOHAS Park Package 6	Completed	Completed	Completed
LOHAS Park Package 7^	Completed	Completed	In Progress
LOHAS Park Package 8	Completed		In Progress
LOHAS Park Package 9	Completed	Completed	In Progress
LOHAS Park Package 10	Completed	Completed	In Progress
LOHAS Park Package 11	Completed		In Progress
LOHAS Park Package 12	In Progress		
LOHAS Park Package 13	In Progress		
Tai Wai Station	Completed	Completed	In Progress
Tin Wing Stop	Completed	In Progress	
The Southside Package 1	Completed	Completed	In Progress
The Southside Package 2	Completed	Completed	In Progress
The Southside Package 3	Completed	In Progress	
The Southside Package 4	Completed	In Progress	
The Southside Package 5	In Progress		
Yau Tong Ventilation Building	Completed	In Progress	

^ *The shopping mall of this package ("The LOHAS") was opened in August 2020.*

West Rail Line Property Development Plan

The Company acts as development agent for the West Rail property projects.

Station/Site	Site Area *(hectares)*	Actual/Expected tender award date	Actual/Expected completion date
Property Development Packages Awarded			
Tuen Mun	2.65	August 2006	By phases from 2012 – 2014
Tsuen Wan West (TW7)	2.37	September 2008	2014
Nam Cheong	6.18	October 2011	By phases from 2017 – 2019
Long Ping (North)	0.99	October 2012	2017
Tsuen Wan West (TW5) Cityside	1.34	January 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	August 2012	2018
Tsuen Wan West (TW6)	1.38	January 2013	2018
Long Ping (South)	0.84	June 2013	2019
Yuen Long	3.91	August 2015	2022
Kam Sheung Road Package 1	4.17	May 2017	2025
	28.12		
Property Development Packages to be Awarded			
Kam Sheung Road Package 2	About 5.17	2024 – 2025	2031 – 2032
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	28.73		
Total	**56.85**		

OTHER BUSINESSES

Ngong Ping 360

Due to COVID-19, revenue at the Ngong Ping Cable Car and its associated theme village ("Ngong Ping 360") decreased by 83.4% to HK$65 million while patronage decreased by 82.1% to 0.26 million. Following the pandemic, cable car services either operated on shortened hours or were suspended for around 150 days in 2020 and provided normal service on other days. The indoor attractions at Ngong Ping Village were closed from 27 January 2020.

In September 2020, we launched the 360 FILA Sports Fest outdoor sports campaign in conjunction with sporting apparel brand FILA to alleviate the financial impact of the pandemic. We also provided various offers for cable car tickets and products depending on the pandemic situation.

Octopus

The Company's share of profit from Octopus Holdings Limited decreased by 22.6% to HK$181 million, mainly due to lower transport transaction volume and lower sales of consumer products. As at 31 December 2020, more than 31,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation stood at 34.1 million, while average daily transaction volumes and value were 11.6 million and HK$193.7 million, respectively.

HONG KONG NETWORK EXPANSION

Tai Wai to Hung Hom Section
99.99%
Complete

Hung Hom to Admiralty Section
91.2%
Complete

Proceed with
3 Railway Projects
under Railway Development Strategy 2014

AIM

Network expansion is a key aspect of our "Hong Kong Core" strategic pillar, laying the foundations for our future growth as we enhance connectivity to meet the city's developing transport needs. We strive to design and construct new railway projects to the highest possible standards of quality, emphasising safety, cost control, efficiency and environmental sustainability.

CHALLENGES

- Progressing the design of railway projects under Railway Development Strategy 2014 ("RDS 2014"), which could add 35 km to the MTR railway network in the coming years and create further development opportunities
- Working toward the opening of the full Tuen Ma Line in the third quarter of 2021; for the Hung Hom to Admiralty section of the Shatin to Central Link, the targeted opening date of the first quarter of 2022 is significantly at risk due to the major challenges encountered

STRATEGIES

- Further improve our project management systems and processes to ensure quality delivery of current and future projects
- Continue digitalising our approach to project management by adapting modern systems and technology
- Continue to strengthen collaboration among internal and key external stakeholders
- Ensure the Company's future success by leveraging and building upon previous project experience to secure future projects, diversify our business and contribute to long-term, sustainable growth

OUTLOOK

We continue to work toward the delivery of the 17-km Shatin to Central Link project, which will greatly reduce travel times between major population centres in Hong Kong. We expect the full Tuen Ma Line – connecting Phase 1 of the Tuen Ma Line with West Rail Line via Sung Wong Toi, To Kwa Wan, Ho Man Tin and Hung Hom stations – to open in the third quarter of 2021, bringing the important Shatin to Central Link project one step closer to completion. We are also working hard on the project's Hung Hom to Admiralty section.

Elsewhere, we are progressing the design of the Tung Chung Line Extension and the Tuen Mun South Extension, and have commenced the procurement of the design consultancies for Kwu Tung Station and the Northern Link. We are also continuing to work closely with Government on other railway projects under RDS 2014.

With the opening of Tuen Ma Line Phase 1, the Shatin to Central Link made further progress in 2020. We are continuing to work closely with Government on the RDS 2014 development framework for Hong Kong railways, which will potentially increase the city's railway network by 35 km and bring with it even more opportunities for development and business expansion.

SHATIN TO CENTRAL LINK

The ten-station, 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will enhance the existing rail network and improve connectivity in Hong Kong. The first phase is the 11-km Tai Wai to Hung Hom Section, and the second phase is the 6-km Hung Hom to Admiralty Section.

The Tai Wai to Hung Hom Section will connect the former Ma On Shan Line to the West Rail Line via Diamond Hill and Hung Hom stations to form the Tuen Ma Line. When the Hung Hom to Admiralty Section is completed, the East Rail Line will run under Victoria Harbour to Exhibition Centre Station and Admiralty Station via Hung Hom.

Upon completion, the Shatin to Central Link will connect several existing railway lines and significantly reduce travel times between New Territories North, Kowloon and Hong Kong Island. Passengers will also have more routes to choose from, particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of the East Rail Line.

Project Progress

As at 31 December 2020, 99.99% of the Tai Wai to Hung Hom Section and 91.2% of the Hung Hom to Admiralty Section had been completed.

On 11 February 2020, the Company entered into relevant agreements with Government and Kowloon-Canton Railway Corporation to supplement 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.

Tuen Ma Line Phase 1, opened on 14 February 2020, enables passengers on the former 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 to travel between the New Territories North and East districts to East Kowloon and Hong Kong Island East more conveniently.

Trial operations of the full Tuen Ma Line began in January 2021, marking a major milestone toward the commencement of passenger service.

During 2020, track-laying works were completed along the full length of the 6-km section from Hung Hom Station to Admiralty Station. To mark this milestone, a small celebration event was held in the tunnel at

Exhibition Centre Station on 17 July 2020. In November 2020, a topping-out ceremony for Exhibition Centre Station was held.

As the existing East Rail Line will connect with the future Hung Hom to Admiralty section, its signalling system must be upgraded for compatibility with the extension to the line. As reported earlier, the introduction of the new signalling system was put on hold in September 2020 and the system was finally commissioned in February 2021 after the satisfactory completion of all further testing and approvals from relevant Government departments.

After reviewing the report of the investigation panel, the Company has established a dedicated "Shatin to Central Link Technical and Engineering Assurance Team" to monitor the project from both a technical and service readiness perspective and to identify any important potential issues of the remaining works for timely reporting and follow-up. A new Service Reliability Report will also be introduced as part of Government's reviewing mechanism of the commissioning of new lines to ensure the timely reporting and handling of issues with potentially significant reliability impacts. The Company will also implement other recommendations made in the report of the investigation panel.

Programme for Delivery

The full line opening of the Tuen Ma Line is anticipated to be in the third quarter of 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), due to the major challenges encountered, the targeted opening date of the first quarter of 2022 is significantly at risk. The Company is working to the best of its ability to open the line at the earliest opportunity.

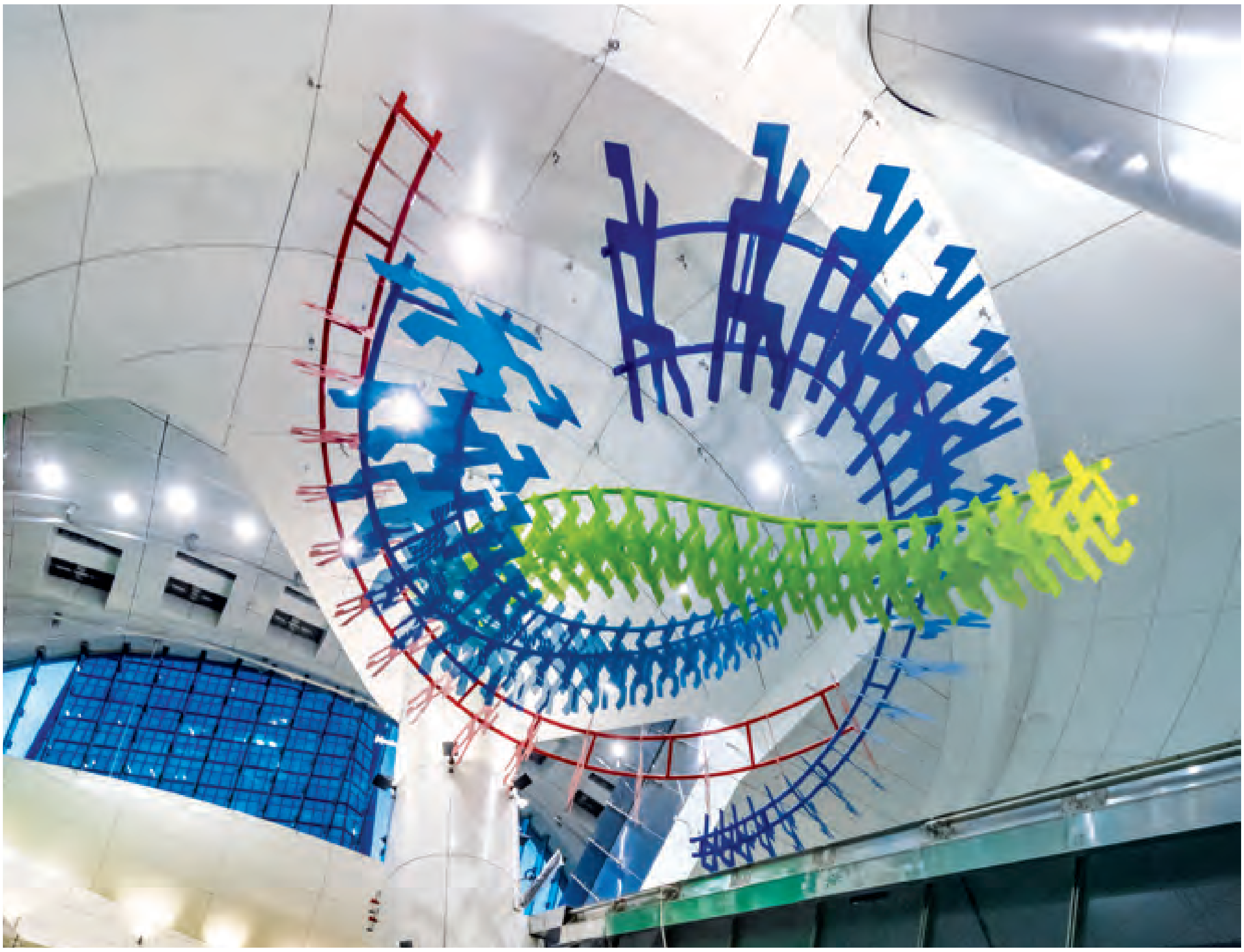
Concerns Relating to Construction Works

On 12 May 2020, Government released the Final Report of the Commission of Inquiry ("COI") into the Construction Works at and near the Hung Hom Station Extension under the Shatin to Central Link. The report concluded that the relevant structures at and near the Hung Hom Station Extension are safe and fit for purpose with the completion of suitable measures. Works for the suitable measures were completed to programme in mid-2020.

Separately, the Expert Advisor Team report also concluded that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of the suitable measures.

In its Final Report, the COI identified a number of inadequacies in respect of the construction process used during the construction of the Hung Hom Station and adjacent structure (including failures in respect thereof, such as poor workmanship incidents compounded by lax supervision, and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations on how the Company's project management practices should be improved. Based on the COI's interim report and the recommendations of the review carried out by the Capital Works Committee of the Board in 2018, the latter aided by an external consultant Turner & Townsend ("T&T"), the Company has been updating and improving its project management practices over the past two years. Many of these have already been incorporated into the Company's standard practices. Out of the 38 recommendations made by T&T, 31 have been implemented, and implementation of the remaining seven is well underway. The Company notes the comments and recommendations made by the COI in its Final Report. These are now being incorporated into our on-going work to improve our project management and quality assurance systems and processes for the delivery of future railway projects.

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



Funding

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete, and this was submitted to Government on 10 February 2020. The Company's submission included an additional amount of project management cost for the Company. However, Government advised the Company that Government considers there has been no material modification in respect of the Shatin to Central Link project and, therefore, Government disagrees with the inclusion of any additional project management cost in the Cost to Complete. The additional funding sought by Government and subsequently approved by the Legislative Council on 12 June 2020 did not include any additional amount of project management cost for the Company. Government has recently responded to the Company that Government maintains its position of disagreement to any increase in the project management fee. The Company believes it is entitled (in accordance with the relevant entrustment agreement and following the Company's receipt of independent expert advice) to an increase in the project management cost, to be agreed by way of good faith negotiations or otherwise determined in accordance with the relevant entrustment agreement. Despite the fact that this matter needs to be resolved, the Company continues to comply with its project management obligations under the agreement and meet the costs thereof, on an interim and without prejudice basis, to allow the Shatin to Central Link project to progress whilst reserving its position. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained as far as possible.

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

OTHER NEW RAILWAY PROJECTS

Working under the RDS 2014 framework for the future development of the Hong Kong railway network, the Company was invited by Government in April, May and December 2020 to proceed with the detailed planning and design of the Tung Chung Line Extension, Tuen Mun South Extension, as well as Kwu Tung Station and the Northern Link, respectively. In June and October 2020, the design consultancies were awarded for the Tung Chung Line Extension and Tuen Mun South Extension, respectively. Ground investigation works and environmental impact assessments have also commenced. Procurement of the design consultancies for Kwu Tung Station and the Northern Link has commenced.

The Tung Chung Line Extension project comprises two components: i) a new intermediate Tung Chung East Station between Sunny Bay Station and Tung Chung Station, and ii) an extension of the existing Tung Chung Line to a new terminal station at Tung Chung West. Construction is expected to commence in 2023. The Company has also agreed with Government to construct the Airport Railway Extended Overrun Tunnel to facilitate an increase in the train frequency of Tung Chung Line in the future.

The Tuen Mun South Extension is a 2.4-km extension of the West Rail Line (which will become the Tuen Ma Line in the future) from the existing Tuen Mun Station to a new terminus at Tuen Mun South via a proposed intermediate station between Tuen Mun Station and the new Tuen Mun South Station. Construction is expected to commence in 2023.

The Kwu Tung Station and Northern Link project comprises two phases: i) a new Kwu Tung Station along the Lok Ma Chau Spur Line between Sheung Shui Station and Lok Ma Chau Station, and ii) a 10.7 km-long railway line linking Kam Sheung Road Station on the West Rail Line (future Tuen Ma Line) with the new Kwu Tung Station via three proposed intermediate stations in San Tin, Ngau Tam Mei and Au Tau. Upon completion of the project, a loop will be formed in the Northwest New Territories to enhance transport network connectivity between the east and west New Territories.

In May 2020, we submitted a proposal to Government for the Hung Shui Kiu Station project, and we continue to provide further information and details to Government. We also submitted a project proposal for the South Island Line (West) in December 2020.

During the year, we continued to work with Government to address technical challenges on the East Kowloon Line and North Island Line projects.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

11 Railway Services in **4** Countries

2,183km
Operating Route Length
Outside of Hong Kong

1.38 billion
Total Patronage
Outside of Hong Kong

AIM

Representing one of the three core pillars under our Corporate Strategy, our Mainland of China and International Businesses enable us to grow and connect communities in markets beyond Hong Kong as we strive to become a leading multinational provider of railway services, delivering world-class operations in geographies as diverse as the Mainland of China, Europe and Australia.

CHALLENGES

- COVID-19 has led to reduced patronage and services due to stay-at-home policies and lockdown protocols
- Competition is increasing in the Mainland and international passenger rail markets as more rail operators look outside their home markets
- Railway operators must adjust to different operating and investment models to participate in the Mainland of China and overseas markets
- Operators must also continuously enhance their services and facilities in order to meet rising customer satisfaction standards

STRATEGIES

- Continue delivering operational excellence to fulfil and renew existing contracts and win new ones, capturing both construction and O&M opportunities
- Expand business in the Mainland of China by continuing to explore transit-oriented development ("TOD") opportunities and further participate in the development of the Greater Bay Area
- Explore "Rail Plus Property" development opportunities in Europe and Australia
- Further diversify revenue streams via asset replacement, maintenance and public-private partnership ("PPP") infrastructure development opportunities in selective markets

OUTLOOK

COVID-19 will continue affecting our Mainland of China and International Business for some time as the world struggles to get the pandemic under control and re-establish business and travel as usual. Therefore, we can expect passenger demand and revenue to fluctuate to varying degrees in 2021 depending on the business models of different business contracts. In the meantime, we must keep adapting our operations in different markets to continue delivering world-class railway services for our overseas customers.

Hangzhou Metro Line 1 Phase 3 (Airport Extension), the full Hangzhou Metro Line 5, Middle Section of Beijing Metro Line 16 and Shenzhen Metro Line 4 North Extension all opened at various points througout 2020. These lines and their related businesses should all begin making financial contributions moving forward.

Over the coming months and years, we will strive to expand our presence in the Mainland of China market and continue taking an active role in the development of the Greater Bay Area. We will also be seeking new opportunities across Europe and Australia. This will be done via three primary approaches: delivering operational excellence, exploring more TOD opportunities in the Mainland and overseas markets, and raising our railway value chain capabilities.

Over the years, we have exported our considerable expertise and experience in the construction, operation and maintenance of world-class railway networks to a variety of markets outside Hong Kong, including the Mainland of China, Macao, Europe and Australia. These businesses carried a total of approximately 1.38 billion passengers and an average of approximately 4.4 million passengers per weekday in 2020.

RAILWAY BUSINESSES IN THE MAINLAND OF CHINA

Beijing

In Beijing, our associate operates Beijing Metro Line 4 ("BJL4"), the Daxing Line, the first three phases of Beijing Metro Line 14 ("BJL14") and the Northern Section and Middle Section of Beijing Metro Line 16 ("BJL16"). The average on-time performance of these four lines in 2020 was 99.9%.

Beijing Metro Line 4 and the Daxing Line

The COVID-19 outbreak impacted patronage for BJL4 and the Daxing Line during the year. Combined ridership for the two lines in 2020 was approximately 239 million passenger trips while average weekday patronage was 742,000, representing year-on-year decreases of 47.5% and 45%, respectively. The Daxing Line operations and maintenance ("O&M") contract has been extended to 29 December 2022.

Beijing Metro Line 14

The first three phases of BJL14 recorded combined passenger trips of approximately 148 million and average weekday patronage of over 479,000 in 2020, representing decreases of 40.8% and 39.2%, respectively, compared to 2019. The full opening of BJL14 is scheduled for late 2021 at the earliest.

Beijing Metro Line 16

The Northern Section of BJL16 recorded approximately 25 million passenger trips and average weekday patronage of more than 81,000 in 2020. The Middle Section of BJL16 opened on 31 December 2020, with the full line scheduled to open in late 2022 at the earliest.

Beijing Metro Line 17

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

Shenzhen

Shenzhen Metro Line 4 and North Extension

Shenzhen Metro Line 4 ("SZL4"), operated by our wholly owned subsidiary, saw a decline in patronage in 2020 due to COVID-19. Patronage decreased by 35% to approximately 156 million passengers and average weekday patronage dropped to approximately 446,000. The line once again recorded exceptional on-time performance of 99.9%.

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

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

Hangzhou

Hangzhou Metro Line 1 and Xiasha Extension

Our associate operates Hangzhou Metro Line 1 ("HZL1") and the HZL1 Xiasha Extension. In 2020, patronage on these lines decreased by 27.4% to about 215 million year on year and average weekday patronage dropped to about 612,000. On-time train performance remained at 99.9%. The HZL1 Phase 3 (Airport Extension) formally opened at the end of December 2020.

Hangzhou Metro Line 5

The full line of Hangzhou Metro Line 5 commenced operation in April 2020. Total patronage was about 108 million in 2020 and average weekday patronage was about 332,000.

PROPERTY BUSINESSES IN THE MAINLAND OF CHINA

Shenzhen

The Tiara residential development at Shenzhen Metro Longhua Line Depot Site Lot 1 has a total developable GFA of approximately 206,167 square metres with a retail centre of about 10,000 square metres by GFA. More than 98% of residential units have been sold and handed over to buyers.

COVID-19 negatively impacted the occupancy rate and patronage of TIA Mall in 2020. The Company granted rental concessions to eligible tenants to help them withstand the impact of business disruption caused by the pandemic.

Beijing

The occupancy rate for Ginza Mall in Beijing decreased during the year to 84%. The Company extended rental relief to eligible tenants to help them withstand the impact of business disruption caused by the pandemic.

Tianjin

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

Property Management Businesses

As at 31 December 2020, the Company managed a total of approximately 406,000 square metres of self-developed and other third-party properties in the Mainland of China.

MACAO

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

EUROPE RAILWAY BUSINESSES

United Kingdom

TfL Rail/Elizabeth Line

In London, our wholly owned subsidiary operates the Crossrail operating concession under the TfL Rail brand. Services include Liverpool Street Station to Shenfield, Paddington Station to Heathrow Airport and Paddington Station to Reading, the latter of which is a 57-km route that was included into the service at the end of 2019. MTR continues to support the phased opening of TfL Rail, which will be renamed Elizabeth Line upon the opening of the Central Operating Section. We recently introduced the new class 345 Full Length Unit to operate to Heathrow Airport.

Although ridership has fallen, TfL Rail services have managed to minimise the risks presented by COVID-19. Our financial interest is reasonably protected as this concession has no fare revenue risks.

South Western Railway

Our associate operates the South Western Railway ("SWR") franchise, one of the largest rail networks in the UK. Services for the SWR were also reduced during lockdown as a result of COVID-19. SWR was transitioned into the Emergency Recovery Measures Agreement ("ERMA") in September 2020 for a period spanning to May 2021. The termination sum for the SWR franchise was agreed with the client which will be paid at the end of the ERMA term. The full exposure to the SWR franchise has already been provided in our 2019 financial statements.

Sweden

MTR is the largest rail operator in Sweden by passenger volume. It operates three rail businesses via wholly owned subsidiaries: Stockholm Metro (Stockholms tunnelbana); MTRX (formerly known as MTR Express), an intercity service between Stockholm and Gothenburg; and the Stockholm commuter rail service ("Stockholms pendeltåg"), which serves the greater Stockholm area.

Stockholm Metro (Stockholms tunnelbana)

During the pandemic, Stockholm Metro continued to run a full service with strong operational performance.

MTRX

MTRX – which underwent a successful rebranding earlier in 2020 and was recently ranked third in the Swedish Innovation Index – has been operating a reduced service since March 2020 due to travel restrictions and decreased demand brought by the COVID-19 outbreak.

Stockholms pendeltåg

Stockholms pendeltåg continued to run a full service during the pandemic while achieving record-high punctuality.

AUSTRALIA RAILWAY BUSINESSES

Melbourne's Metropolitan Rail Service

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

Sydney Metro North West Line

In Sydney, MTR is a member of Northwest Rapid Transit ("NRT") Consortium and is responsible for the delivery of the PPP contract including design, financing and construction of the Sydney Metro North West Line as well as its on-going operations and maintenance. The line opened in May 2019 and continued to run a full service in 2020. Patronage was affected by COVID-19; however, there is no fare revenue risk to NRT according to the terms of this franchise. Service performance continued to improve throughout the year.

Sydney Metro City & Southwest Project

In 2019, the NRT consortium was awarded the PPP contract for delivery of new metro trains and core rail systems, as well as operation and maintenance of the combined Sydney Metro North West and Sydney Metro City & Southwest lines until 2034. The project continued to move forward with milestones achieved as planned despite some restrictions on the flow of people and materials between countries as a result of COVID-19.

GROWTH OUTSIDE OF HONG KONG

Mainland of China

In August 2020, the consortium led by our wholly owned subsidiary was awarded the tender for the Shenzhen Metro Line 13 PPP project. The contract was formally signed in October 2020. The project covers investment, construction, and operations and maintenance for a period of 30 years following completion. Construction covers track laying, rolling stock, and electrical and mechanical systems, including the signalling system and automated fare collection system for the 22.4-km line. The total capital cost of approximately RMB4.91 billion will be financed by both debt and equity. The PPP project will be undertaken by a company in which our wholly owned subsidiary will have an effective interest of 83%. Shenzhen Metro Line 13 is expected to commence service in 2023. Our bid for Shenzhen Metro Line 12 was unsuccessful.

In June 2020, the Company signed a joint venture agreement with Chengdu Rail Transit Group to set up a new company to explore and develop station commercial and related businesses in Chengdu. One of the priorities of the new company is to demonstrate the added value MTR brings to station commercial activities.

Also in June 2020, our rolling stock maintenance company with the CRRC Hangzhou Digital Technology Co., Ltd consortium won the contracts for the rolling stock fleet overhaul for certain lines in Hangzhou and Shenzhen.

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

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

Sweden

In December 2020, our wholly owned subsidiary was awarded the O&M concession for the Mälartåg train service, which covers an eight-year period with a one-year option for extension. The tender process is currently subject to legal challenges from other bidders, and traffic may start from December 2021 or later depending on the results of these challenges. The Mälartåg network currently serves around 11 million passenger journeys a year and connects Stockholm with major towns and cities including Linköping in the south, Uppsala in the north and Örebro in the west. A further line extension to the north, the Upptåget service, will be included from mid-2022 depending on the results of the legal challenges.

Our bid for the O&M of Roslagsbanan, the commuter network connecting Stockholm and the municipalities north of the city, was unsuccessful.

Mainland of China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise/ Expected Date of Commencement of Operation	Franchise/ Concession Period	Total Number of Stations	Route Length *(km)*
Mainland of China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	September 2009	30 years	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	10 years till 2020 and 2 years extension till 2022	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Phase 1 to 3: by phases from May 2013 to December 2015 Full Line: Targeted late 2021	30 years from December 2015	Phase 1 to 3: 30 Note 1 Full Line: 37	Phase 1 to 3: 43.8 Full Line: 47.3
Beijing Metro Line 16 ("BJL16")	49%	Phase 1: O&M Concession Full Line: PPP	Phase 1: December 2016 Phase 2: December 2020 Full Line: Targeted after 2021	Phase 1: till full line opens Full Line: 30 years	Phase 1: 10 Phase 2: 7 Note 1 Full Line: 29	Phase 1: 19.6 Phase 2: 10.9 Full Line: 49.8
Beijing Metro Line 17	49%	O&M Concession	Subject to local government arrangement	20 years after service commencement (no later than 31 December 2045)	Full Line: 21	Full Line : 49.7
Shenzhen Metro Line 4 ("SZL4")	100%	Build-Operate-Transfer Note 2	Phase 1 and 2: by phases from July 2010 to June 2011	30 years	Full Line: 15	Full Line: 20.5
SZL4 North Extension	100%	O&M Concession	October 2020	End together with SZL4 concession	8	10.8
Shenzhen Metro Line 13	83%	PPP	2023	30 years	16	22.4
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25 years	31	48
HZL1 Xiasha Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
HZL1 Phase 3 (Airport Extension)	49%	O&M Concession	December 2020	End together with HZL1 concession	5	11.2
Hangzhou Metro Line 5 ("HZL5")	60%	PPP Note 3	Initial Section: June 2019 Latter Section (Included West Extension): April 2020	25 years	39	56.2
Macao						
Macao Light Rapid Transit Taipa Line	100%	O&M Service Contract	December 2019	80 months	11	9.3
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8 years	Until End 2021: 31 Full line: 41	Until End 2021: 99 Full line: 128
South Western Railway, United Kingdom	30%	O&M Concession Note 4	August 2017	7 years	216	998
Stockholm Metro, Sweden	100%	O&M Concession	November 2009	8 years till 2017 and 6 years extension till 2023	100	108
MTRX, Sweden	100%	Open Access Operation	Initial service: March 2015 Full schedule: August 2015	Operating license is subject to renewal	7	462
Stockholm commuter rail, Sweden	100%	O&M Concession	December 2016	10 years	54	247
Mälartåg, Sweden	100%	O&M Concession	December 2021	8 years	46	1,060
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	8 years till 2017 and 7 years extension till 2024	222	409
Sydney Metro North West Line	Mixed	PPP (Operations, Trains & Systems)	May 2019	15 years	13	36
Sydney Metro City & Southwest Line	Mixed	PPP (Operations, Trains & Systems)	Target in 2024	10 years after service commencement	18	30

Notes:

1 *BJL14 Phase 2 East Section has 12 stations, 11 opened (one is currently bypassed). BJL14 Phase 3 Middle Section has 11 stations, ten opened (one is currently bypassed). BJL16 Phase 2 has seven stations, five opened (two are currently bypassed).*

2 *SZL4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Limited took over the operation of Phase 1 in July 2010.*

3 *HZL5 West Extension is out of PPP scope.*

4 *South Western Railway was transitioned into Emergency Recovery Measures Agreement in September 2020.*

CORPORATE RESPONSIBILITY

HK$15.4 million
Donated and Sponsored to
Charitable and Other Organisations

64
Volunteering Projects
Organised

MTR's success has been built on the clear vision, mission and values that steer our corporate behaviour and guide us toward achieving business results. We also recognise that corporate responsibility is crucial to maintaining our position as a responsible business that contributes to and benefits society.

As an organisation whose purpose is to "keep cities moving", MTR provides rail and property services that are integral parts of people's lives. Therefore, our corporate responsibility strategy and efforts, underpinned by our sustainable financial model, focus on ensuring safe, responsible operations in all aspects of our business and contributing positively to the development of communities.

As outlined in our Corporate Strategy, the Company is placing greater emphasis than ever on its Environmental, Social and Governance ("ESG") behaviour and practices. Moving forward, our aim is to foster an even stronger sense of corporate responsibility as we address our communities' ever-changing societal and environmental needs and work together toward a better future.

We have published a Sustainability Report every year for the past two decades to keep stakeholders up to date on our ESG performance. It fulfils the disclosure requirements of both the Hong Kong Stock Exchange ESG Reporting Guide and the Global Reporting Initiative Standards: Core option. We also produce a separate sustainability website, which in addition to the Sustainability Report itself provides details of our approach to sustainability and serves as a focal point of the Company.

The Sustainability Report will contain an Independent Assurance Report prepared by an external auditor, who performed limited assurance in relation to certain sustainability performance data. These include data for our Hong Kong, Mainland of China and international businesses covering greenhouse gas ("GHG") emissions; staff indicators such as turnover and training days; safety performance for operations, staff and contractors; and supply chain management numbers. The Sustainability Report 2020 has been published on our sustainability website.

ACTIONS WE HAVE TAKEN UNDER COVID-19

The global pandemic demonstrated the power of corporate social responsibility and firm action to help communities dealing with adversity. Our responsibility is to provide safe and reliable service to the community, allowing cities to keep moving during the pandemic. Following the outbreak of COVID-19, face masks were in very short supply in Hong Kong society. In response, we immediately donated 100,000 surgical masks to communities in need. We also installed vending machines at our stations to ensure that members of the public could more easily obtain potentially life-saving personal protective equipment ("PPE"). We launched our own mask production lines, provided PPE to staff for their protection at their workplace, and initiated appropriate flexible work arrangements.

COVID-19 had a severely detrimental impact on the local economy and affected people's livelihoods. In response, we announced a number of fare rebates to help make transit more affordable, and we offered rental concessions for many of our station and mall tenants to help them ride out the storm. Our Board and Executive Directors donated HK$4.3 million of their remuneration to local charity groups providing special pandemic support such as food, study kits and shelter for around 50,000 beneficiaries. Such initiatives supported our operational efforts to address people's immediate health and safety concerns, namely by requiring frontline staff to wear face masks in trains and stations and by thoroughly cleaning and disinfecting our trains, stations and other facilities on a regular basis. We also set up vending machines at 20 stations where the public could conveniently pick up COVID-19 testing specimen collection packs. Since March 2020, we have been providing free Airport Express tickets through the Hospital Authority to healthcare workers who need to travel between AsiaWorld-Expo Station and the urban area. Over 16,900 tickets had been provided as at the end of January 2021. We also donated 200 tablet devices to underprivileged children to facilitate their online learning.

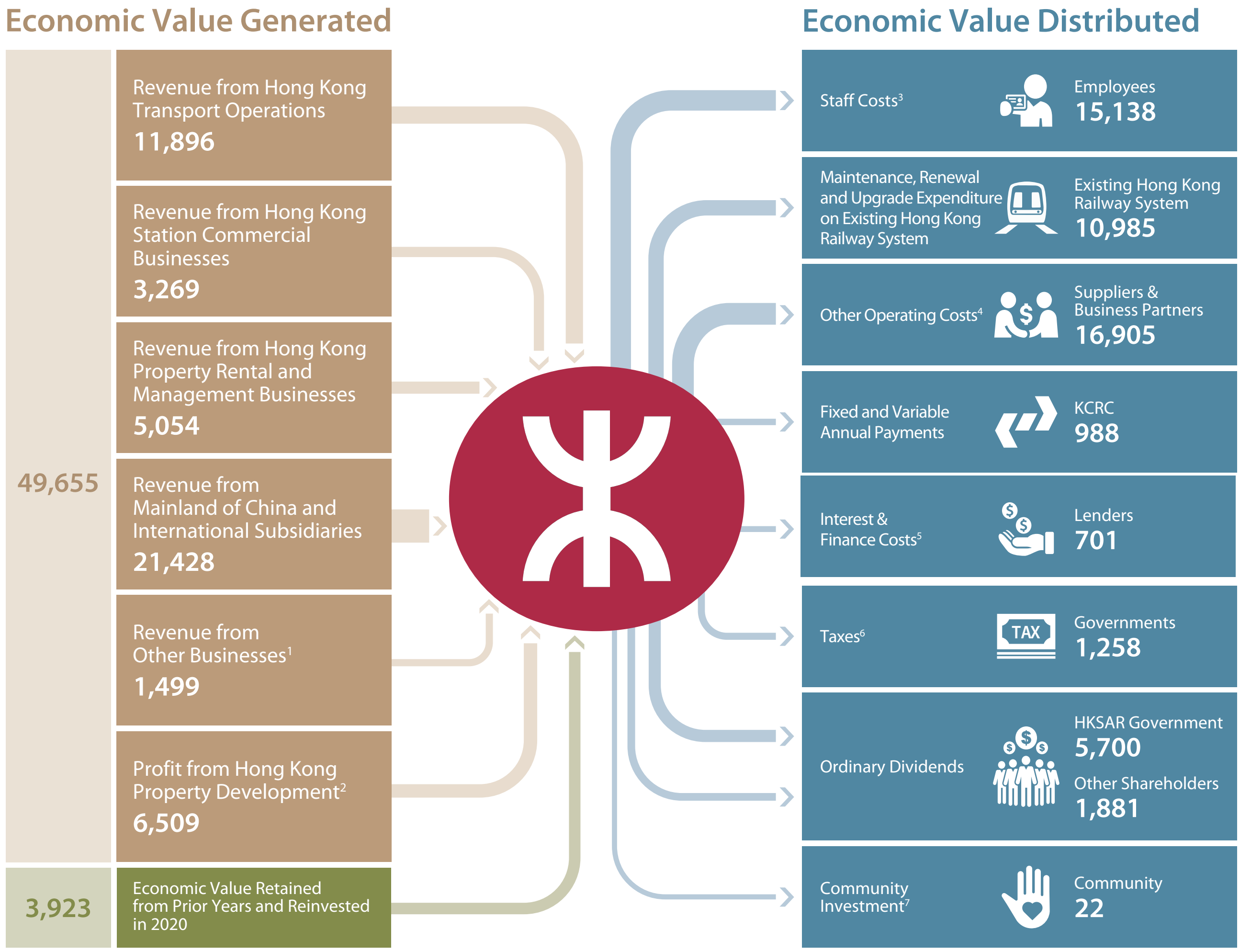
CORPORATE STRATEGY

Our Corporate Strategy outlines a fresh approach to our business development by entrenching robust ESG principles even deeper into our businesses and operations in order to create value for all our stakeholders. We aim to lead the way in three priority areas: social inclusion, GHG emissions, as well as advancement and opportunities for our staff and the community.

- Social inclusion: We strive to design journeys around each individual – from a railway system that is accessible to all, to age-friendly policies catering for senior citizens. We also foster diversity and inclusion to nurture the uniqueness of Hong Kong and its community.

- GHG emissions: The MTR railway network is already a green, low-carbon mode of transport, but we aim to strengthen our current actions to reduce emissions even further. Our long-term strategy is focused on continuing to develop a low-carbon transport network, further reducing our carbon emissions, and pursuing climate adaptation and resilience.
- Advancement and opportunities: We seek to empower people by striving to address societal needs and enable new growth opportunities. We will also champion ideas and innovation to support the growth of individuals and communities, shaping a flourishing society and a better future.

VALUE ADDED AND DISTRIBUTION STATEMENT IN 2020
(HK$ MILLION)



Total: 53,578 **Total: 53,578**

Notes:

1. *Includes share of profit of associates and joint venture.*
2. *Before taking into account staff costs of HK$18 million.*
3. *Excludes staff costs related to Hong Kong railway system maintenance of HK$2,430 million, capitalised for asset creation of HK$1,412 million and recoverable of HK$596 million.*
4. *For simplicity reason, other operating costs include interest income, netted with non-controlling interests. Excludes operating costs related to Hong Kong railway system maintenance of HK$2,424 million.*
5. *Excludes interest expenses capitalised for asset creation of HK$360 million.*
6. *Represents current tax and excludes deferred tax for the year.*
7. *Includes donations, sponsorships and other community engagement contributions, and excludes in-kind donations of HK$20 million given. In addition, there were (i) ongoing fare concessions and promotions of HK$1,710 million, (ii) MTR's share of additional fare promotions offered to our Hong Kong passengers (including 20% rebate on every Octopus trip and HK$100 discounts on MTR City Saver and Monthly Pass Extras), and (iii) rental concessions granted to station and mall tenants that have not been accounted for in this amount.*

COMMUNITY INVESTMENT

"Community Connect" is our platform for initiatives that help a wide range of sectors in the communities we serve while also enhancing the liveability of our city. Programmes and activities are carefully designed to support and engage communities across all 18 districts of Hong Kong. In addition, we enhance customers' travel experiences and promote art appreciation through our "Art in MTR" programme.

We also encourage our employees to volunteer for activities that benefit the community. On a corporate level, we collaborate with non-profit organisations and social enterprises to address evolving community needs.

Youth, Children and the Elderly

Our youth and children's programmes are designed to support young people's aspirations for a better future, promote education, and disseminate important messages regarding railway safety and courtesy.

For 13 years, our annual summer programme, "'Train' for Life's Journeys", has been helping secondary school students develop soft skills and strengthen their self-confidence through interactive workshops, adventure camps and on-the-job experience. The event was deferred and carried out online between 1 and 4 October 2020 in view of continued disruption to school calendars due to COVID-19. The four-day programme proved popular with nearly 100 students from Secondary Three to Secondary Five participating in various workshops and sharing sessions.

Since COVID-19, we created online shows on top of physical show for the "MTR x Hong Kong Repertory Theatre Drama Education Programme 2019-2020" to promote railway safety and courteous behaviour, which was delivered to 24,000 students from kindergarten, primary and special schools. During the year, we also launched a mobile app and online activities on social media platforms to promote railway safety to children during stay-at-home periods.

To promote STEAM (science, technology, engineering, art and math) education, MTR arranged live broadcasts of the "Summer Online Railway Workshops" and "Christmas Delight Online Workshops" in August and December 2020, respectively, to promote green and social inclusion with railway elements. These workshops attracted positive feedback from netizens.

In addition to programmes for our young passengers, we once again organised a variety of activities for the elderly. Our annual elderly programme, launched in co-operation with Radio Television Hong Kong (RTHK) Radio 5, featured a series of posters displayed throughout the MTR network and broadcasts on RTHK promoting railway safety messages to seniors. We also regularly conduct outreach activities in elderly centres, both online and offline, to provide railway and safety messages.

Community Outreach

Although many of our community programmes had to be curtailed due to the COVID-19 pandemic, our staff continued to volunteer their own time to serve the community through the "More Time Reaching Community" Scheme. In 2020 despite various challenges, 64 volunteering projects were organised involving a total of 6,344 volunteer-hours of service to help people in need, involving over 900 participating volunteer headcount.

To help the underprivileged groups ride out the pandemic, our MTR volunteers supported the Hong Kong Council of Social Service and other NGOs on a variety of special volunteering activities. These included packing and distributing pandemic supplies to the underprivileged, delivering food items for low-income families and the elderly, and preparing learning kits for children with special education needs to learn at home.

During the year, we donated and sponsored HK$15.4 million to charitable and other organisations.

Arts and Culture

We promote the development of artistic talent, promote public appreciation of art, and make customers' journeys more inspiring and enjoyable through our "Art in MTR" programme, which offers space for art exhibitions in our highly travelled stations.

We aim to integrate art pieces into stations and enrich passengers' journeys. In 2020, we unveiled seven new artworks in Kai Tak, Diamond Hill and Hin Keng stations following the opening of Tuen Ma Line Phase 1 in addition to Wan Chai Station and Tiu Keng Leng Station. These art pieces featured local heritage, history and customs in various art formats such as time tunnel, colourful glass canopy, platform seats and even a photographic installation of balletic street scenes in collaboration with the Hong Kong Ballet. We also hosted a number of exhibitions, including the "Life and Hope – Ling Tsz Hin Photo Exhibition" and Ming Yue "Embrace Positive Energy for Hong Kong" painting exhibition, across both Sheung Wan and Sai Wan Ho stations, to inject positive energy into the community. In Central Station, a memorial exhibition for legendary singer Teresa Teng was held, which received positive response from the community.

ENVIRONMENTAL PROTECTION

MTR is a proud provider of electrically powered mass transit railway services, offering low-carbon, environmentally sustainable transportation for large urban populations. In order to make our operations even more environmentally friendly, we strive to minimise emissions from our fleet of road vehicles, including buses; use resources as efficiently as possible; and minimise or mitigate other environmental impacts of our business as set out in our Corporate Responsibility Policy.

This past year we introduced our Corporate Strategy, which lays out a roadmap for our future business development as well as strong ESG guiding principles. We published our Climate Change Strategy, which specifies a three-pronged approach to combat climate change: 1) providing a low-carbon transport network; 2) further reducing our carbon emissions; and 3) adapting and remaining resilient to climate change. In line with this approach, we intend to strengthen our current actions and develop a long-term roadmap to achieve even more impactful GHG reduction goals. Therefore, the Company initiated a consultancy study to develop long-term GHG reduction targets, and it intends to launch the programme by 2021. The new targets will be disclosed soon.

We have been reporting our GHG emissions since 2002. We monitor Scope 1, 2 and 3 GHG emissions in accordance with the Greenhouse Gas Protocol established by the World Resources Institute and the World Business Council for Sustainable Development. In tandem, we follow the guidelines published by the Environmental Protection Department and Electrical and Mechanical Services Department in Hong Kong as well as other international guidelines.

To help conserve our planet's natural resources, we continued to reduce electricity consumption across all our businesses. We were active in continuing to replace our air conditioning systems with more energy-efficient chillers in our Hong Kong network. We also supported the development of renewable energy in Hong Kong by installing a 93.24 kW solar energy system at our headquarters. Actions like these will help Hong Kong become carbon-neutral in the future.

In 2020, we issued a new, US$1.2 billion 10-year Green Bond under our new Sustainable Finance Framework to fund projects that conserve energy and protect the environment while enhancing and expanding low-carbon railway services. It was the largest single-tranche green bond for corporates in Asia Pacific. Our Sustainable Finance Framework covers additional eligible investments that support the United Nations Sustainable Development Goals. Details of our sustainable investments are provided in our annual Green Finance Report, which will be published on our sustainability website.

As a builder of new railways and property developments, we are also conscientious of meeting our environmental responsibilities when undertaking new projects. In Hong Kong, an Environmental Impact Assessment must be conducted and appropriate mitigation measures have to be put in place before the start of all designated projects. We are also guided by Environmental Management Systems that are independently audited and certified to be ISO 14001 compliant.

SAFETY FIRST

The safety of our customers, employees and business partners is always our number one priority. We ensure a safe and healthy environment through cultivating a safety-first culture and promoting continuous improvement.

Our Corporate Strategic Safety Plan, which is reviewed and updated every four years, helps us focus our safety efforts across all our business areas to maintain safety performance excellence in support of our growth and global expansion. We have applied a Corporate Safety Management Model with a framework for overseeing our safety management and governance across our businesses. For details on how we enhance customer safety, please refer to the "Hong Kong Transport Operations" section (page 38) of this Annual Report.

We take a rigorous approach with regard to the safety of our staff, contractors and customers. To promote our safety-first culture, we hold a Corporate Safety Month each year alongside on-going initiatives to address specific safety focuses. Another initiative is pursuing our long-term ambition to achieve a "Zero Harm" operating and working environment by prioritising efforts in safety, health and well-being and building a strong preventive culture.

We also invest heavily in maintaining our assets, and we assess operational safety impacts throughout the lifecycles of our projects.

GOVERNANCE AND POLICIES

All our corporate responsibility initiatives are aligned with our business objectives and corporate values and are supported by our corporate governance framework.

Our management approach to corporate responsibility comprises a number of policies, including our Corporate Responsibility Policy, Green Procurement Policy, Climate Change Strategy, and Modern Slavery and Human Trafficking Statement. These policies are overseen by the Board's Corporate Responsibility Committee, which provides strategic guidance and reviews our corporate responsibility practices and performance. Please also refer to the Corporate Responsibility Committee section of the "Corporate Governance Report" (page 103) of this Annual Report for its principal responsibilities. Our Corporate Responsibility Steering Committee supports our corporate responsibility efforts by providing direction on responsible business practices and fostering collaboration across all divisions.

RESPONSIBLE PROCUREMENT

All our suppliers and contractors are required to comply with our Supplier Code of Practice, which sets out a compulsory behavioural framework covering ethical standards, human and labour rights, and supply chain management. We also have a Green Procurement Policy that promotes high standards of environmental protection, both internally and among our suppliers and contractors. To comply with the UK Modern Slavery Act, we have updated our Modern Slavery and Human Trafficking Statement to elucidate our commitment to preventing any incidence of modern slavery or human trafficking within our supply chains and business.

HUMAN RESOURCES

3.4%
Voluntary Staff
Turnover Rate in Hong Kong

4.8
Average Training Days
per Employee in Hong Kong

50,000+
Staff Worldwide

Our staff are our most valuable assets, and we are committed to inspiring, engaging and developing them. As at 31 December 2020, the Company together with its subsidiaries employed 17,288 people in Hong Kong and 16,921 people outside of Hong Kong. Our associates also employed an additional 17,121 people in Hong Kong and worldwide.

RECRUITMENT, TALENT DEVELOPMENT AND RETENTION

During the year, we continued to implement various initiatives to enhance talent acquisition, employee engagement, motivation and talent development. These efforts are reflected in our stable workforce, with the voluntary staff turnover rate in Hong Kong staying low at 3.4% during the year.

The worldwide impact of COVID-19 posed unprecedented challenges to the Company's business performance. Despite reduced patronage and revenue, we made considerable efforts to protect the jobs of our staff and ensure business sustainability. Starting from early January 2020, we adopted a prudent recruitment approach to meet our operational needs while containing costs. We have implemented cost control measures with less impact on staff but meaningful financial outcome for the Company.

To fulfil our long-term manpower and succession needs, and to offer career opportunities to the youth of Hong Kong, we continued our graduate recruitment during the pandemic by stepping up our use of online platforms. During the year, we conducted more than 20 virtual recruitment talks at vocational institutes and organised over 350 virtual interviews. These efforts brought 30 high-calibre graduates into the Company's various graduate development programmes as well as 67 apprentices and Technician Associates into apprenticeship programmes.

In support of our youth development and engagement initiatives, we offered 74 internship placements to students in Bachelor Degree and Associate Degree courses in Hong Kong in 2020. We also successfully leveraged campus recruitment campaigns in different cities in the Mainland of China to recruit around 500 staff for the opening of the Shenzhen Metro Line 4 North Extension.

To attract, retain and motivate our staff, the Company provides competitive pay and benefits, short- and long-term incentive schemes, and a broad range of career development opportunities under its total reward framework. We also conduct regular reviews to maintain market competitiveness of our pay and benefits for staff.

The Company has in place a robust performance management system. We also recognise and reward our staff through our performance-based pay review mechanism as well as various staff motivational schemes and awards.

STAFF MOTIVATION AND ENGAGEMENT

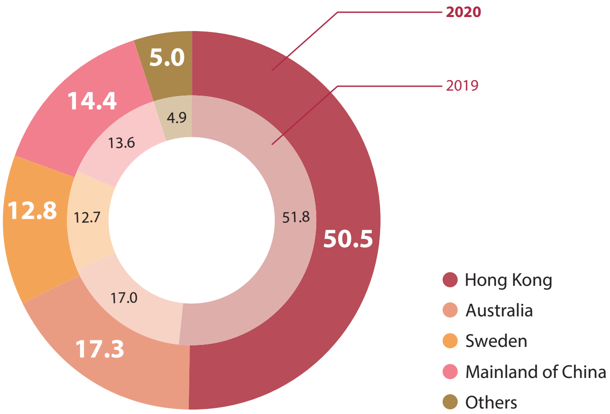
To enhance the on-boarding experience and introduce staff development and recreational facilities to our new joiners, we have produced a series of virtual tours of various workplaces and staff facilities and posted them on the New Joiner Portal. Since May 2020, we have provided free Metro Recreation Club membership for our new joiners as a welcome gift and have also launched a New Joiners Pulse Survey to solicit feedback on candidates' experience and identify areas where we can improve.

During the year, the Company rolled out a number of initiatives to support our staff to combat the COVID-19 pandemic. In February 2020, we issued Care Packs containing face masks and hand sanitiser to our staff at a time when personal protective equipment ("PPE") supplies were tight. Later in the year, we strengthened our staff's PPE and launched in-house face mask production lines at Siu Ho Wan Depot to fulfil the daily operational needs of our local staff. In August, more than 2,000 Operations staff participated in the voluntary COVID-19 test provided by the Transport Department, and all tests results were negative. We also enhanced our medical and counselling service provisions for assignees working overseas in the Mainland of China and international hubs to protect their health and safety.

Other initiatives to support our staff's total well-being included the introduction of one-day paid "Well-being Leave" and the Flexible Benefits Online Platform for our staff to redeem health products and services, and the formalisation of the staggered working hours policy for office staff. In addition to various wellness programmes like health talks and newsletters to help our staff relieve pressure during the difficult times of 2020, we launched an "Emotional Health One-stop Learning Portal" to provide resources such as a stress self-assessment online questionnaire, topical learning videos and scenario-based e-courses.

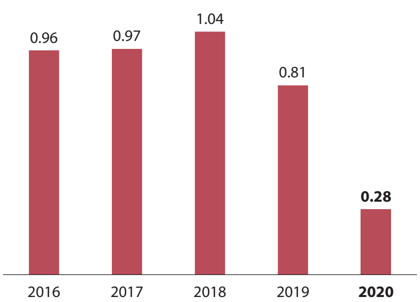
Staff Distribution by Geographic Location

(Percentage)



Staff Productivity – Earnings Per Employee*

(HK$ million)



* *Hong Kong businesses excluding property development*

LISTENING AND RESPONDING TO STAFF

During the year, the Company placed great emphasis on launching the new Corporate Strategy, "Transforming the Future". This included communicating to our staff via channels such as the Chairman's Letter and CEO Blog, a dedicated website set up by the Transformation Management Office, quarterly pulse surveys starting in December 2020 to solicit staff feedback, and meetings and forums at the corporate and departmental levels.

To maintain timely business communications during the pandemic, the Company held a number of virtual forums and meetings for executive managers and managers around the world. Our Staff Consultation Mechanism continued to serve as a key communication channel between management and staff. In response to the COVID-19 outbreak, we also organised regular communication sessions with staff representatives and unions to proactively engage our staff and formulate measures in a timely manner to address their concerns.

To foster mutual appreciation between colleagues and encourage collaboration, we held promotional events for the "We Praise We Support" programme and the "Living the MTR Values Award Scheme" in May 2020. To enhance staff awareness of the Code of Conduct and facilitate its application in the workplace, we held a series of promotional programmes in July 2020 with interactive games featuring real-life situations.

Through our multinational internal communication platform MTRconnects, our staff can share corporate updates and stories with colleagues in different business hubs across the globe. In 2020, this platform achieved a total view rate of approximately 178,000. Meanwhile, our staff suggestion scheme continued to be a successful channel for soliciting innovative ideas from our staff.

A CULTURE OF CONTINUOUS LEARNING

The Company provides a wide range of learning and development programmes for new recruits and in-service staff. In 2020, we offered 6,787 training courses in Hong Kong, averaging 4.8 training days per staff member. In addition, we have launched a new learning management platform with enhanced self-learning resources which encourages staff utilisation anytime anywhere.

In the wake of the pandemic, the Company accelerated its use of learning technology via virtual classrooms, webinars and e-learning to deliver training and development programmes for staff. We took a blended approach to many of our training and development programmes as well as our apprenticeship scheme by combining virtual learning and hands-on practice in small groups. Such initiatives have helped our staff maintain business as usual and sustained the Company's growth.

In 2020, we introduced a structured corporate development ladder to all newly recruited and promoted staff. It aims to provide colleagues with learning opportunities that strengthen their skills and readiness to lead; facilitate their understanding of MTR's vision, values and DNA; enhance self-understanding; and widen their networks within the Company to facilitate collaboration. We also launched an online newsletter, "L&DD Learning Digest", to provide colleagues with practical tips in learning and development, promote learning culture and encourage self-learning.

DRIVING WORK IMPROVEMENT

MTR's Work Improvement Team ("WIT") programme plays a prominent role in driving innovation and creating a spirit of betterment. During the year, we held over 75 WIT classes and organised 680 projects.

MTR ACADEMY

The MTR Academy ("MTRA" or "the Academy") is recognised as a valuable centre of management and engineering expertise for the railway industry. Now offered in the Mainland of China and Belt and Road countries as well as Hong Kong, MTRA's high-quality programmes – in particular its Executive Certificate Programmes – are designed to mould the next generation of railway professionals.

In September 2020, MTRA expanded its suite of accredited programmes to include full-time programmes. The Advanced Diploma in Transport & Operations Management and Diploma in Transport Studies are accredited at Qualification Framework Level 4 and 3, respectively. The Academy also successfully obtained programme recognition from HK PolyU SPEED and City U SCOPE, creating more articulation pathways for graduates.

Overall, 120 students were admitted in Academic Year 2020, nearly half of whom are full-time students. A total of 48 graduates were presented with Advanced Diploma and Diploma awards this year.

The Applied Learning (Railway Studies) course of the New High School (DSE) saw its first batch of graduates in 2020 with 30 students completing the course.

As part of its Corporate Programme for Belt & Road Countries and Global Clients, MTRA held two Executive Certificate courses in June and July 2020, attracting 43 senior managers from railway companies as well as relevant government officials from the United States, Singapore, Hong Kong and the Mainland of China. This also marked the first time these programmes were streamed live online. Programmes have a modular design to increase flexibility for individual students in choosing learning items.

FUTURE PLANS

The Hong Kong Rail Transit Innovation Research Institute has set up a rail transit control simulation system at Hung Hom Centre, which is being put into service in the first half of 2021. In addition to being used for research purposes, it can also provide simulated facilities for various types of Academy courses. Members of this Research Institute are Beijing Jiaotong University, The Hong Kong Polytechnic University, MTR, MTR Academy and Traffic Control Technology Co. Ltd.

In addition, MTRA will begin offering accredited Security Training courses in 2021. These are self-funded certification courses for security jobs. After MTRA becomes recognised by the Employee Retraining Board as an appointed training body, these courses can be offered to a wider audience, including those seeking to re-enter the employment market.

FINANCIAL REVIEW

HK$42,541million
Total Revenue
Decreased by **21.9%**

HK$4,381million
Underlying Business Profit
Decreased by **58.5%**

Strong Credit Ratings
AA+
by Standard & Poor's
(long-term)

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

PROFIT AND LOSS

HK$ million	Year ended 31 December 2020	2019	Inc./(Dec.) HK$ million	%
Total Revenue	**42,541**	54,504	(11,963)	(21.9)
Recurrent Business (Loss)/Profit				
EBIT				
Hong Kong Transport Operations	**(5,408)**	(591)	(4,817)	(815.1)
Hong Kong Station Commercial Businesses	**2,502**	5,122	(2,620)	(51.2)
Hong Kong Property Rental and Management Businesses	**4,185**	4,264	(79)	(1.9)
Mainland of China and International Railway, Property Rental and Management Subsidiaries	**261**	1,089	(828)	(76.0)
Other Businesses, Project Study and Business Development Expenses	**(1,949)**	(2,353)	404	17.2
Share of Profit of Associates and Joint Venture	**605**	288	317	110.1
Total Recurrent EBIT	**196**	7,819	(7,623)	(97.5)
Interest and Finance Charges	**(1,097)**	(939)	158	16.8
Income Tax	**(237)**	(1,740)	(1,503)	(86.4)
Non-controlling Interests	**12**	(160)	(172)	n/m
Recurrent Business (Loss)/Profit	**(1,126)**	4,980	(6,106)	n/m
Property Development Profit (Post-tax)	**5,507**	5,580	(73)	(1.3)
Underlying Business Profit	**4,381**	10,560	(6,179)	(58.5)
Investment Property Revaluation (Loss)/Gain	**(9,190)**	1,372	(10,562)	n/m
Net (Loss)/Profit Attributable to Shareholders of the Company	**(4,809)**	11,932	(16,741)	n/m
Total Recurrent EBIT Margin# (in %)	**(1.0%)**	13.8%		(14.8%) pts.
Total Recurrent EBIT Margin# (excluding Mainland of China and International Subsidiaries) (in %)	**(3.2%)**	19.3%		(22.5%) pts.

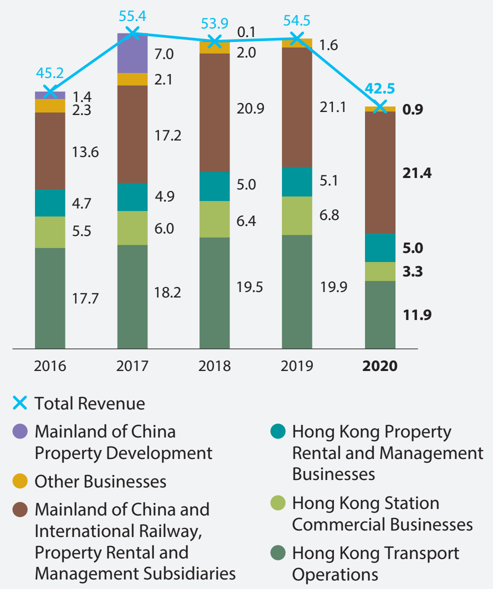
: Excluding share of profit of associates and joint venture
n/m : not meaningful

The outbreak of COVID-19 has become a pandemic and adversely impacted all the cities where we operate. The anti-pandemic measures put in place by governmental authorities in Hong Kong and globally, such as social distancing and travel restrictions, have had a widespread negative impact on the social, economic and travel activities, hence seriously affected the Group's businesses.

Total Revenue

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

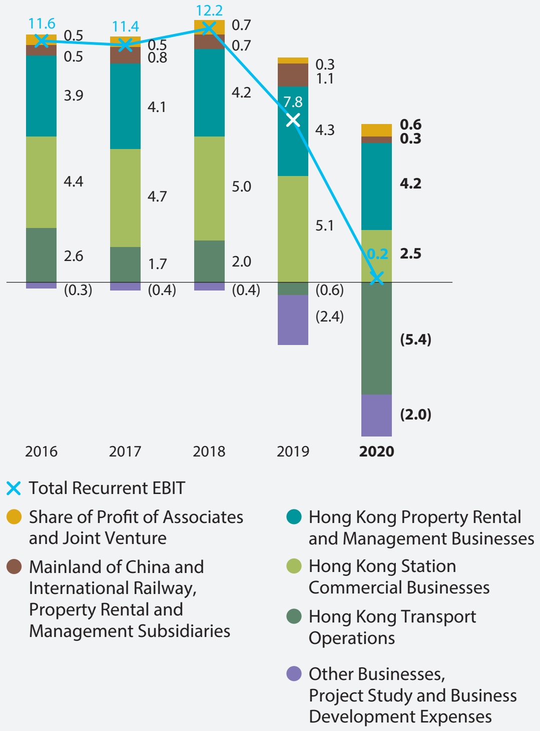
Total Revenue
(HK$ billion)



Recurrent Business Loss

Total Recurrent EBIT*

(HK$ billion)



* *Including share of profit of associates and joint venture, project study and business development expenses*

Total Recurrent EBIT

The Group's total recurrent EBIT (including share of profit of associates and joint venture as well as project study and business development expenses) in 2020 decreased by 97.5% to HK$196 million when compared to 2019. The decrease was mainly due to the adverse impact of the on-going COVID-19 pandemic and deterioration of the general economic environment.

EBIT of HKTO decreased drastically by HK$4,817 million, resulting in a loss of HK$5,408 million, mainly due to the COVID-19 pandemic. The anti-pandemic measures implemented by the Hong Kong Government (such as the closure of several boundary crossings between the Hong Kong SAR and the Mainland of China, social distancing, work-from-home arrangements, school closures, entry immigration controls and quarantine measures) have resulted in a significant reduction in domestic and international travel demand, resulting in an unprecedented drop of 31.5% in our patronage. Amid this difficult time, the Company implemented several relief measures for our passengers, including a substantial increase of the "3.3% Rebate for Every Octopus Trip" to "20% Rebate for Every Octopus Trip" from 1 July 2020 to 31 March 2021, and a price reduction for MTR City Saver and Monthly Pass Extra from 1 July 2020 to 30 June 2021. The Company has also deployed proactive measures to save costs and improve operating efficiency.

EBIT of HKSC decreased by 51.2% to HK$2,502 million. The rental revenue from our station retail business significantly decreased primarily due to the profit and loss impact of rental concessions granted to (i) duty free shop concession holders and other station kiosks as a result of the closure of several boundary crossings between the Hong Kong SAR and the Mainland of China, and (ii) retail tenants of station kiosks in domestic lines whose businesses have been adversely affected by reduced footfall in stations. Our advertising revenue also recorded a major decrease mainly due to lower advertising spending since retail and tourism market sentiments continued to be dampened under the COVID-19 pandemic.

EBIT of Hong Kong property rental and management businesses slightly decreased by 1.9% to HK$4,185 million. The decrease was mainly due to the profit and loss impact of rental concessions granted to retail mall tenants whose businesses have been adversely affected by the sluggish retail sentiment and social distancing measures implemented from time to time. These rental concessions granted are amortised to the profit and loss account over the remaining lease term of respective tenants, of which a certain portion had been charged to the profit and loss account in 2020 accordingly. The adverse impact brought by the COVID-19 pandemic on our property rental business was mostly offset by (i) the profit contribution from the Group's newly acquired remaining economic interests in Telford Plaza II and PopCorn 2 since March 2020, (ii) the profit contribution from The LOHAS, our new shopping mall which opened by phases in August and November 2020, and (iii) substantially lower rental concessions granted in 2020 in respect of the public order events ("POE").

EBIT of our Mainland of China and international railway, property rental and management subsidiaries business have also been adversely affected, but to varying degrees, resulting in a decrease in EBIT of 76.0% to HK$261 million. Our Melbourne Train in Australia experienced a small loss during 2020 as a result of the COVID-19 pandemic. Our Shenzhen Metro Line 4 in Mainland of China recorded a slight loss in 2020 due to the COVID-19 pandemic. Stockholm commuter rail service (Stockholms pendeltåg) continued its turnaround trajectory with its loss substantially reduced resulting from stringent cost controls.

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

Share of profit of associates and joint venture was HK$605 million in 2020, compared to a profit of HK$288 million in 2019 which included a provision of onerous contract of HK$436 million made in respect of the South Western Railway franchise agreement in the United Kingdom. If the provision in 2019 had been excluded, the share of profit in 2020 would have decreased by HK$119 million or 16.4% when compared with 2019, mainly due to the adverse financial impact of the COVID-19 pandemic on our associate in Hangzhou as well as Octopus Holdings Limited in Hong Kong, partly offset by the incremental profit contribution from our joint venture of Hangzhou Metro Line 5 with full line operation since April 2020.

Total Recurrent EBIT Margin

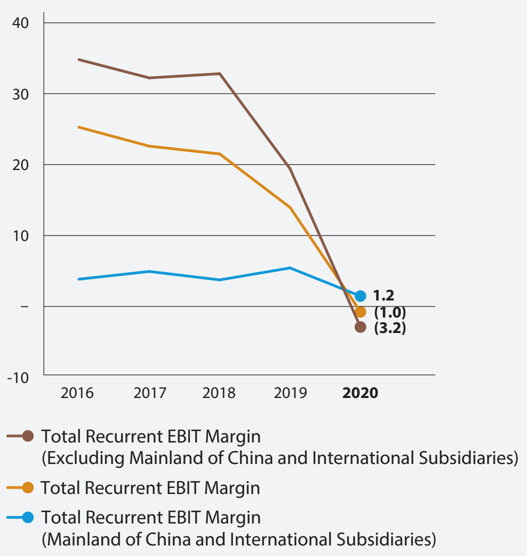
Total recurrent EBIT margin maintained a stable trend from 2016 to 2018 and declined in 2019 and 2020.

In 2019, the decline of total recurrent EBIT margin was mainly due to the adverse impact of the POE in Hong Kong, as well as the provisions made for the Hung Hom incidents of the SCL project in Hong Kong of HK$2 billion and the South Western Railway franchise agreement in the United Kingdom of HK$436 million.

In 2020, the further decline of total recurrent EBIT margin was due to the adverse impact of the COVID-19 pandemic in Hong Kong and globally, as well as the provision made for the SCL project management cost of HK$1.4 billion.

Total Recurrent EBIT Margin^

(Percentage)



^ *Excluding share of profit of associates and joint venture*

Overview
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Interest and Finance Charges

Interest and finance charges for recurrent businesses were HK$1,097 million, representing an increase of 16.8% from 2019, mainly due to higher net interest expense as a result of higher average net borrowing. A detailed review of the Group's financing activities is featured in the ensuing section.

Income Tax

Income tax for recurrent businesses was HK$237 million, representing a decrease of 86.4% from 2019 due to declined financial performance.

Property Development Profit (Post-tax)

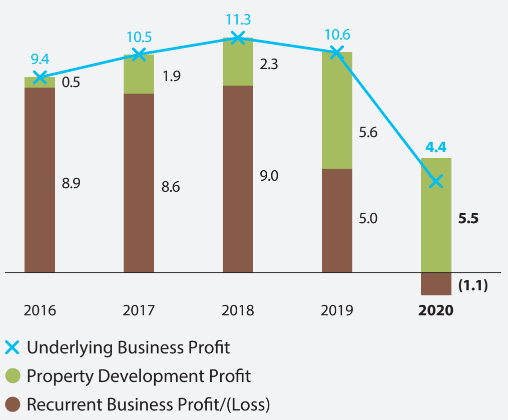
The Group's property development profit was HK$5,507 million, representing a decrease of 1.3% from 2019. The property development profit for 2020 was mainly derived from the share of surplus proceeds of LP6 (LOHAS Park Package 6) and sales of inventory units.

Underlying Business Profit

The Group's underlying business profit was HK$4,381 million, representing a decrease of 58.5% from 2019 as a result of the on-going COVID-19 pandemic and the deterioration of the general economic environment.

Underlying Business Profit

(HK$ billion)



Investment Property Revaluation Loss

Revaluation of the Group's investment properties in Hong Kong and Mainland of China, which was performed by independent professional valuation firms, resulted in a revaluation loss of HK$9,190 million for the year ended 31 December 2020, compared to a revaluation gain of HK$1,372 million for 2019.

The revaluation loss, being a non-cash item, of a 10% drop in the value of our investment properties in Hong Kong was mainly attributable to the decrease in reversionary rents due to the COVID-19 pandemic and the deterioration of the general economic environment.

Net Loss Attributable to Shareholders of the Company

Taking into account the Group's recurrent businesses, property development businesses and investment property revaluation, the Group reported a net loss attributable to shareholders of the Company of HK$4,809 million for the year ended 31 December 2020, compared to a net profit of HK$11,932 million for 2019.

STATEMENT OF FINANCIAL POSITION

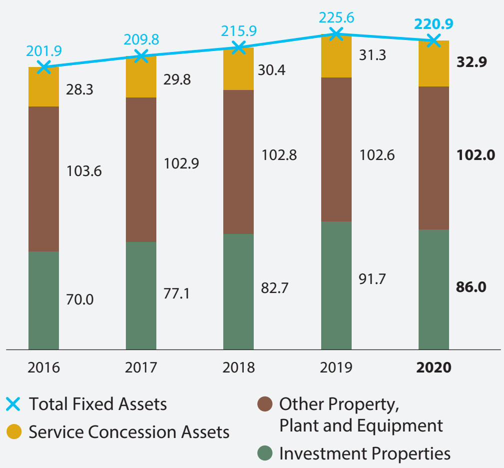
HK$ million	As at 31 December 2020	As at 31 December 2019	Inc./(Dec.) HK$ million	%
Fixed Assets	**220,932**	225,605	(4,673)	(2.1)
Property Development in Progress	**11,942**	12,022	(80)	(0.7)
Interests in Associates and Joint Venture	**11,592**	10,359	1,233	11.9
Debtors and Other Receivables	**13,313**	11,169	2,144	19.2
Cash, Bank Balances and Deposits	**20,906**	21,186	(280)	(1.3)
Other Assets	**11,889**	8,873	3,016	34.0
Total Assets	**290,574**	289,214	1,360	0.5
Total Loans and Other Obligations	**(50,340)**	(39,456)	10,884	27.6
Creditors and Other Liabilities	**(38,833)**	(38,881)	(48)	(0.1)
Obligations Under Service Concession	**(10,295)**	(10,350)	(55)	(0.5)
Deferred Tax Liabilities	**(14,125)**	(13,729)	396	2.9
Total Liabilities	**(113,593)**	(102,416)	11,177	10.9
Net Assets	**176,981**	186,798	(9,817)	(5.3)
Represented by:				
Total Equity Attributable to Shareholders of the Company	**176,788**	186,606	(9,818)	(5.3)
Non-controlling Interests	**193**	192	1	0.5
Total Equity	**176,981**	186,798	(9,817)	(5.3)

Fixed Assets

Fixed assets decreased by 2.1% to HK$220,932 million, mainly due to the revaluation loss of our investment property portfolio of HK$9,190 million, partly offset by (i) the acquisition of the remaining economic interests in Telford Plaza II and PopCorn 2 for a total consideration of HK$3,000 million and (ii) renewal and upgrade works for our existing Hong Kong railway network. With the new asset additions in our Hong Kong railway network, total depreciation and amortisation increased by 2.4%.

Fixed Assets Growth

(HK$ billion)



Interests in Associates and Joint Venture

Interests in associates and joint venture increased mainly due to share of profit from associates and joint venture, the equity injections into Sydney Metro City & Southwest (SMCSW) and Beijing MTR, as well as exchange gain on carrying amount mainly due to the appreciation of the Renminbi.

Debtors and Other Receivables

Debtors and other receivables increased mainly due to (i) the portion of rental concession granted yet to be amortised to the profit and loss account, and (ii) the increase in property development receivables upon the recognition of the property development profit of LP6.

Other Assets

Other assets increased mainly due to the increase in amount due from related parties and properties held for sales.

Total Loans and Other Obligations

Total loans and other obligations increased mainly due to the issuance of a 10-year US$1.2 billion green bond, and net drawdown of loans and issuance of other bonds/notes.

Total Equity

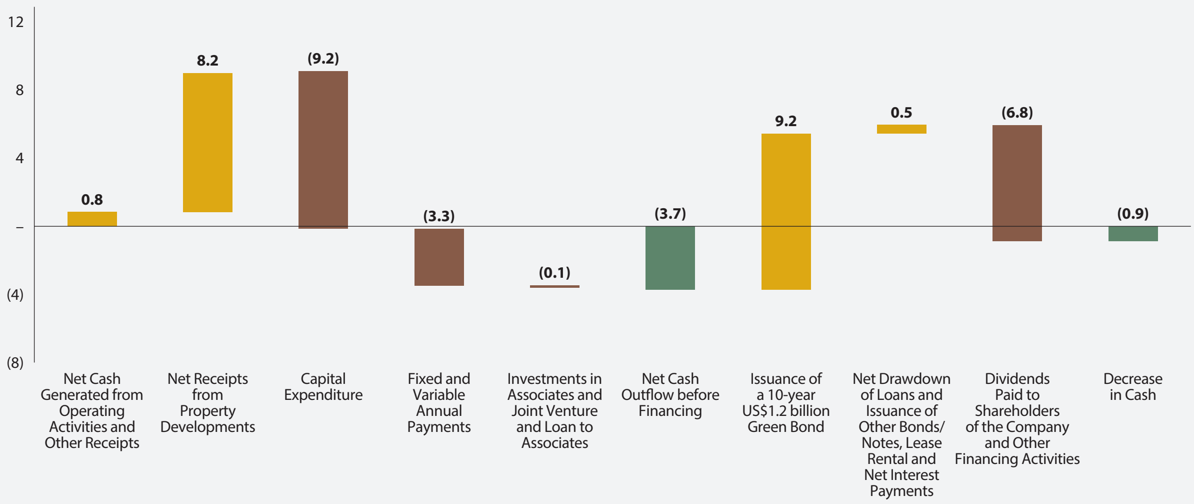
Total equity decreased by HK$9,817 million, mainly due to the investment property revaluation loss and the payments of the 2019 final ordinary dividend and 2020 interim ordinary dividend during the year partly offset by the underlying business profit recorded for the year.

CASH FLOW

HK$ million		2020		2019
Net Cash Generated From Operating Activities and Other Receipts		**835**		17,164
Receipts from Property Developments		**8,583**		9,175
Net Cash Receipts		**9,418**		26,339
Capital Expenditure		**(9,249)**		(6,072)
Payments in respect of Property Developments		**(412)**		(3,259)
Fixed Annual Payment		**(750)**		(750)
Variable Annual Payment		**(2,583)**		(2,305)
Investments in Associates and Joint Venture and Loan to Associates		**(140)**		(1,539)
Total Cash Outflow		**(13,134)**		(13,925)
Net Cash (Outflow)/Inflow before Financing		**(3,716)**		12,414
Net Drawdown/(Repayment) of Loans and Capital Market Instruments, and Lease Rental Payments	**10,145**		(1,678)	
Net Interest Payment	**(484)**		(684)	
Net Drawdown/(Repayment) of Debts, Lease Rental and Net Interest Payments		**9,661**		(2,362)
Dividends Paid to Shareholders of the Company		**(6,808)**		(6,649)
Other Financing Activities		**(9)**		(117)
(Decrease)/Increase in Cash		**(872)**		3,286
Cash, Bank Balances and Deposits as at 1 January		**21,186**		18,022
(Decrease)/Increase in Cash		**(872)**		3,286
Effect of Exchange Rate Changes		**592**		(122)
Cash, Bank Balances and Deposits as at 31 December		**20,906**		21,186

Cash Flow for the Year Ended 31 December 2020

(HK$ billion)



Net Cash Generated from Operating Activities and Other Receipts

Compared to net cash generated from operating activities and other receipts of HK$17,164 million for 2019, the net cash generated from operating activities and other receipts decreased by HK$16,329 million to HK$835 million, mainly due to the decrease in operating profit resulting from the adverse impact of the COVID-19 pandemic.

Net Receipts from Property Development

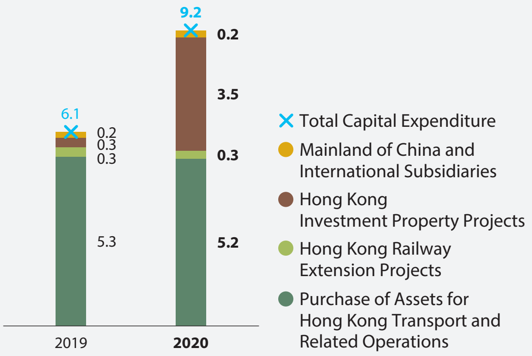
The net receipts from property development of HK$8,171 million mainly comprised cash receipts from LOHAS Park Packages.

Capital Expenditure

In 2020, capital expenditure mainly comprised cash outflow of HK$5,226 million for Hong Kong transport and related operations, HK$3,539 million for Hong Kong investment property projects mainly for the acquisition of the remaining economic interests in Telford Plaza II and PopCorn 2 shopping malls in 2020, HK$250 million for Hong Kong railway extension projects, and HK$234 million for Mainland of China and overseas subsidiaries.

Capital Expenditure

(HK$ billion)



Investments in Associates and Joint Venture and Loan to Associates

The investments in associates and joint venture and loans to associates mainly related to the equity injection into Sydney Metro City & Southwest (SMCSW) in 2020.

Net Drawdown of Loans and Issuance of Other Bonds/Notes, Lease Rental and Net Interest Payments

In 2020, net drawdown of loans and issuance of other bonds/notes, lease rental and net interest payment comprised of (i) proceeds mainly from capital market instruments of HK$26,872 million (including the issuance of a 10-year US$1.2 billion green bond), (ii) mainly repayment of loans of HK$16,495 million and (iii) net interest payment of HK$484 million.

A detailed review of the Group's financing activities is featured in the ensuing section.

Dividends Paid to Shareholders of the Company

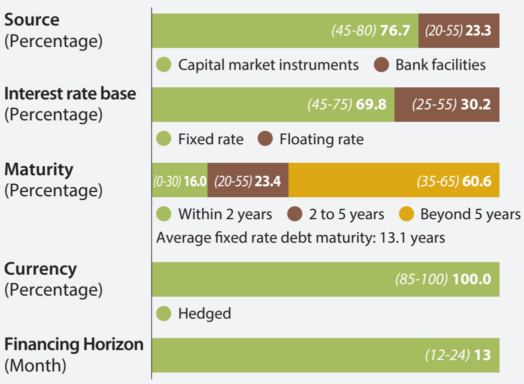
The Group paid dividends of HK$6,808 million (2019: HK$6,649 million) in cash, being the 2019 final dividend of HK$0.98 per share and the 2020 interim dividend of HK$0.25 per share.

FINANCING ACTIVITIES

Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile** as at 31 December 2020



The year 2020 was a challenging one for companies in many industries all around the world. The COVID-19 pandemic forced cities to lock down to varying degrees, causing businesses to close and leading to substantial job losses. Vaccines have been developed in record time, and several countries have launched vaccination programmes since late 2020. However, it may take some time for the vaccination programmes to achieve their desired results.

The US Federal Reserve cut the target range of the federal funds rate to 0 – 0.25% p.a. in March 2020 and undertook a broad array of activities to limit the economic fallout of the pandemic, including resuming the purchase of massive amounts of securities. It is expected that the federal funds rate will remain at 0 – 0.25% p.a. for some time until the average annual inflation rate reaches 2%.

Interest rates fell in 2020. The three-month USD Libor fell to 0.24% p.a. at year-end from 1.91% p.a. at the start of the year. Likewise, the three-month HKD Hibor fell to 0.35% p.a. from 2.43% p.a. The 10-year US Treasury yield fell to 0.91% p.a. at year-end from 1.92% p.a. at the start of the year, while the 10-year HKD swap rate fell to 0.86% p.a. from 2.04% p.a.

The Company started the year raising financing with shorter tenors with a view to lowering overall borrowing cost. With the business environment deteriorating sharply by the middle of March, the Company switched its focus to financing facilities with longer maturities and higher drawdown flexibility. The Company established a Sustainable Finance Framework in August to cover green, social and sustainable financing, reflecting its commitment to the environment and sustainable community development.

In total, the Company arranged around HK$29.2 billion of financing in 2020, including a 10-year US$1.2 billion green bond, HK$5.3 billion equivalent of MTNs with maturities ranging from six months to 35 years, and HK$14.6 billion in loans with maturities ranging from one to five years.

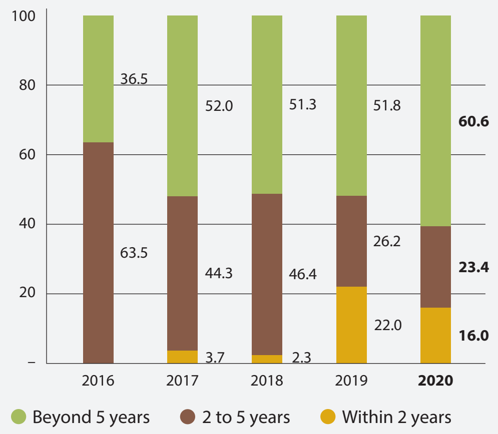
The US$1.2 billion green bond issued in August 2020 under the Sustainable Finance Framework is the largest single-tranche green bond for corporates in Asia-Pacific. The issuance won Hong Kong's "Best Green Bond" Award and, being at the forefront of raising sustainable financing, the Company was also named the "Best Issuer for Sustainable Finance" in Hong Kong in The Asset Triple A Country Awards 2020.

Maturity Profile

The graph below shows the maturity profiles of the Company's interest-bearing borrowings at year-end from 2016 to 2020. This demonstrates the spread of the maturities of the Company's borrowings and well-managed refinancing risk. The increase in the proportion of borrowings beyond five years in 2020 was mainly due to the issuance of the 10-year USD bond.

Maturity Profile

(Percentage)



* *The Company monitors the refinancing risk (i.e. the debt maturity profile) based on available committed facilities.*

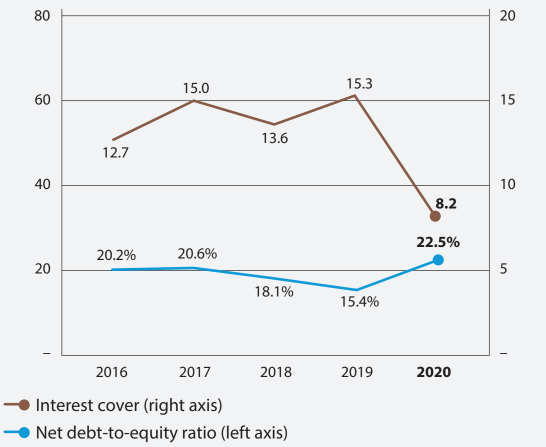
Gearing Ratio and Net Interest Coverage

The Group's gearing ratio, as measured by net debt-to-equity ratio, increased by 7.1% points to 22.5% at the end of 2020 compared to 15.4% at the end of 2019. This was mainly due to an increase in net debts. The Group's interest cover decreased from 15.3 times to 8.2 times.

The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years. Despite the fact that net debt-to-equity ratio and interest cover in 2020 stayed at the highest and lowest points for the past five years respectively, they remain at healthy levels.

Net Debt-to-Equity Ratio and Interest Coverage

(Percentage) *(Times)*

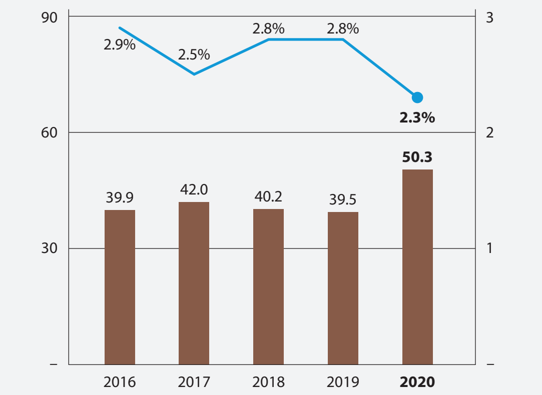


Cost of Borrowing

The Group's consolidated gross debt position increased to HK$50,340 million at the end of 2020 compared to HK$39,456 million at the end of 2019. The weighted average cost of the Group's interest-bearing borrowings decreased to 2.3% p.a. in 2020 from 2.8% p.a. in 2019.

The diagramme below shows the Group's gross debt level and weighted average cost of interest-bearing borrowings.

Group's Gross Debt Level and Weighted Average Cost of Interest Bearing Borrowings



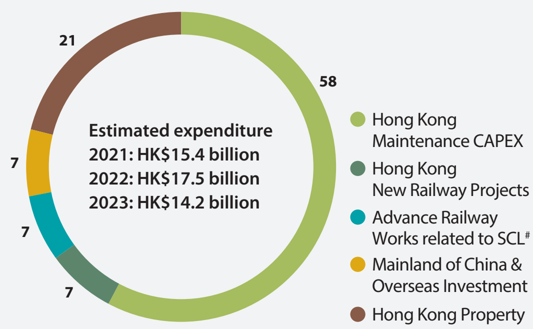
Capital Expenditure and Investment

The Group's capital expenditure and investment mainly consists of three parts: Hong Kong railway projects (including maintenance), Hong Kong property investment and development, and Mainland of China and overseas investments. The total spending from 2021 to 2023 is estimated at HK$47.1 billion.

Capital expenditure on Hong Kong railway projects (including maintenance costs for the Hong Kong railway system) will continue to constitute a significant portion of capital expenditure in 2021–2023.

The Group believes that, based on its cash balance and available committed banking facilities totalling more than HK$30 billion as at 31 December 2020, as well as its ready access to both the loan and debt capital markets, it will have sufficient financing capacity to fund its capital expenditure and investment programme.

Capital Expenditure and Investment (2021–2023)



Advanced Railway Works involve modifications to or upgrades or expansion of assets for which MTR is responsible under the existing service concession agreement with KCRC. This will predominantly be covered by the reduction in future maintenance CAPEX during the construction period of SCL Project which MTR would have otherwise incurred.

Credit Ratings (as of 11 March 2021)

Credit ratings	Short-term ratings*	Long-term ratings*
Standard & Poor's	A–1+/A–1+	AA+/AA+
Moody's	–/P-1	Aa3/Aa3
Rating & Investment Information, Inc. (R&I)	a–1+	AA+

* *Ratings for Hong Kong dollar/foreign currency denominated debts respectively*

TEN-YEAR STATISTICS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Financial										
Consolidated Profit and Loss *(in HK$ million)*										
Total revenue										
– Hong Kong transport operations	**11,896**	19,938	19,490	18,201	17,655	16,916	16,223	15,166	14,523	13,509
– Hong Kong station commercial businesses	**3,269**	6,799	6,458	5,975	5,544	5,380	4,963	4,588	3,680	3,422
– Hong Kong property rental and management businesses	**5,054**	5,137	5,055	4,900	4,741	4,533	4,190	3,778	3,401	3,083
– Mainland of China and international railway, property rental and management subsidiaries	**21,428**	21,085	20,877	17,194	13,562	12,582	12,627	13,246	12,786	12,411
– Other businesses	**894**	1,545	1,990	2,174	2,339	2,290	2,153	1,929	1,349	998
– Recurrent businesses	**42,541**	54,504	53,870	48,444	43,841	41,701	40,156	38,707	35,739	33,423
– Mainland of China property development	**–**	–	60	6,996	1,348	–	–	–	–	–
– Total	**42,541**	54,504	53,930	55,440	45,189	41,701	40,156	38,707	35,739	33,423
Total EBITDA										
– Recurrent businesses	**5,194**	15,351	18,843	17,677	16,947	16,260	15,478	14,399	12,895	12,124
– Hong Kong property development	**6,491**	5,707	2,574	1,097	311	2,891	4,216	1,396	3,238	4,934
– Mainland of China property development	**(13)**	(25)	25	2,314	366	(140)	(55)	–	–	–
– Total	**11,672**	21,033	21,442	21,088	17,624	19,011	19,639	15,795	16,133	17,058
Depreciation and amortisation	**(5,365)**	(5,237)	(4,985)	(4,855)	(4,127)	(3,849)	(3,485)	(3,372)	(3,208)	(3,206)
Variable annual payment	**(238)**	(2,583)	(2,305)	(1,933)	(1,787)	(1,649)	(1,472)	(1,247)	(883)	(647)
Total EBIT										
– Recurrent business EBIT										
EBIT										
Hong Kong transport operations	**(5,408)**	(591)	1,985	1,656	2,572	2,493	2,710	2,716	2,881	2,701
Hong Kong station commercial businesses	**2,502**	5,122	5,025	4,722	4,362	4,230	3,927	3,668	2,969	2,799
Hong Kong property rental and management businesses	**4,185**	4,264	4,225	4,082	3,912	3,650	3,427	3,092	2,764	2,490
Mainland of China and international railway, property rental and management subsidiaries	**261**	1,089	722	814	490	640	782	704	520	381
Other businesses	**(1,670)**	(2,077)	(81)	(53)	58	53	129	86	(7)	23
Project studies and business development expenses	**(279)**	(276)	(323)	(332)	(361)	(304)	(454)	(486)	(323)	(123)
Share of profit of associates and joint venture	**605**	288	658	494	537	361	121	158	456	297
Sub-total	**196**	7,819	12,211	11,383	11,570	11,123	10,642	9,938	9,260	8,568
– Property development business EBIT	**6,478**	5,682	2,599	3,411	675	2,751	4,161	1,396	3,238	4,934
– Total	**6,674**	13,501	14,810	14,794	12,245	13,874	14,803	11,334	12,498	13,502
(Loss)/profit attributable to shareholders of the Company arising from:										
– Recurrent businesses	**(1,126)**	4,980	9,020	8,580	8,916	8,565	8,024	7,437	6,914	6,243
– Property development businesses	**5,507**	5,580	2,243	1,935	530	2,329	3,547	1,163	2,704	4,225
– Underlying businesses	**4,381**	10,560	11,263	10,515	9,446	10,894	11,571	8,600	9,618	10,468
– Investment property revaluation (loss)/gain	**(9,190)**	1,372	4,745	6,314	808	2,100	4,035	4,425	3,757	5,088
– Total	**(4,809)**	11,932	16,008	16,829	10,254	12,994	15,606	13,025	13,375	15,556
(Loss)/profit for the year	**(4,821)**	12,092	16,156	16,885	10,348	13,138	15,797	13,208	13,514	15,688
(Loss)/earnings per share *(in HK$)*	**(0.78)**	1.94	2.64	2.83	1.74	2.22	2.69	2.25	2.31	2.69
Ordinary dividend per share *(in HK$)*	**1.23**	1.23	1.20	1.12	1.07	1.06	1.05	0.92	0.79	0.76
Ordinary dividend proposed and declared	**7,602**	7,574	7,359	6,728	6,317	6,207	6,116	5,335	4,575	4,396
Share price at 31 December *(in HK$)*	**43.35**	46.05	41.20	45.80	37.70	38.40	31.80	29.35	30.50	25.15
Market capitalisation at 31 December *(HK$ million)*	**267,943**	283,574	252,947	275,156	222,629	224,956	185,284	170,187	176,692	145,490
Consolidated Financial Position *(in HK$ million)*										
Total assets	**290,574**	289,214	274,687	263,768	257,340	241,103	227,152	215,823	206,687	197,684
Loans, other obligations and bank overdrafts	**50,340**	39,456	40,205	42,043	39,939	20,811	20,507	24,511	23,577	23,168
Obligations under service concession	**10,295**	10,350	10,409	10,470	10,507	10,564	10,614	10,658	10,690	10,724
Total equity attributable to shareholders of the Company	**176,788**	186,606	180,447	166,304	149,461	170,055	163,325	152,557	142,904	131,907
Financial Ratios										
EBITDA margin◊ *(in %)*	**12.2**	28.1	35.0	36.1	38.3	38.7	38.4	37.2	36.1	36.3
EBITDA margin◊ (excluding Mainland of China and international subsidiaries) *(in %)*	**22.1**	42.0	54.5	53.5	54.0	53.3	53.1	53.4	53.6	55.6
EBIT margin$^{\varphi}$ *(in %)*	**(1.0)**	13.8	21.5	23.8	25.2	25.5	26.1	25.3	24.6	24.7
EBIT margin$^{\varphi}$ (excluding Mainland of China and international subsidiaries) *(in %)*	**(3.2)**	19.3	32.8	32.2	34.8	34.8	35.4	35.6	36.1	37.5
Net debt-to-equity ratio *(in %)*	**22.5**	15.4	18.1	20.6	20.2	11.3	7.6	11.8	11.0	11.6
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**2.4**	5.8	6.5	6.7	5.9	6.5	7.3	5.8	7.0	8.2
Interest cover *(times)*	**8.2**	15.3	13.6	15.0	12.7	14.4	15.2	11.5	13.0	14.5

◊ *Excluding profit on Hong Kong property development.*

φ *Excluding profit on Hong Kong property development and share of profit of associates and joint venture.*

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary services	**268,492**	301,552	308,742	301,541	287,828	284,487	273,771	269,141	260,890	254,407
Airport Express	**12,631**	22,971	23,190	23,202	23,276	23,242	23,232	23,216	23,134	19,603
Light Rail	**10,385**	10,592	11,139	11,145	11,152	11,034	10,728	10,554	10,453	10,166
Total number of passengers *(thousand)*										
Domestic Service	**1,145,035**	1,568,196	1,669,973	1,637,898	1,586,522	1,577,457	1,547,757	1,474,659	1,431,040	1,366,587
Cross-boundary Service	**7,647**	104,183	117,448	112,549	113,274	114,241	113,049	111,362	109,707	103,881
High Speed Rail	**1,033**	16,923	5,302@	–	–	–	–	–	–	–
Airport Express	**3,070**	15,764	17,710	16,621	16,133	15,725	14,881	13,665	12,695	11,799
Light Rail	**111,865**	155,885	179,411	178,502	178,709	176,149	174,199	171,652	167,210	161,289
Bus	**42,077**	51,484	51,025	50,744	50,413	50,537	50,404	47,738	45,962	43,956
Intercity	**103**	1,880	3,630	3,698	3,739	4,080	4,348	4,324	4,028	3,787
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**3,406**	4,658	4,862	4,772	4,608	4,577	4,490	4,297	4,148	3,968
Cross-boundary Service – daily average	**21**	285	322	308	309	313	310	305	300	285
High Speed Rail – daily average	**36##**	46	53#	–	–	–	–	–	–	–
Airport Express – daily average	**8**	43	49	46	44	43	41	37	35	32
Light Rail – weekday average	**317**	448	506	503	500	493	487	482	466	451
Bus – weekday average	**121**	151	147	146	144	145	144	137	131	126
Intercity – daily average	**4##**	5	10	10	10	11	12	12	11	10
Average passenger km travelled										
Domestic and Cross-boundary services	**10.5**	10.6	10.8	10.8	10.9	11.0	11.0	11.0	10.9	10.9
Airport Express	**25.8**	28.2	28.3	28.5	28.4	28.4	28.6	29.0	29.0	29.4
Light Rail	**2.8**	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8
Bus	**4.1**	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary services	**45**	59	62	63	64	65	67	65	65	63
Airport Express	**6**	19	22	20	20	19	18	17	16	18
Light Rail	**30**	40	44	44	44	44	45	45	45	45
Proportion of franchised public transport boardings (%)	**45.3**	47.4	49.0&	49.1	48.4	48.5	48.1	46.9	46.4	45.4
HK$ per car-km operated *(Hong Kong Transport Operations*)*										
Total revenue	**35.6**	51.7	53.4	52.5	53.0	51.3	51.0	48.4	47.6	45.9
Operating costs	**33.3**	33.0	28.2	28.5	27.7	27.2	26.8	24.9	24.2	23.1
Operating profit	**2.3**	18.7	25.2	24.0	25.3	24.1	24.2	23.5	23.4	22.8
HK$ per passenger carried *(Hong Kong Transport Operations*)*										
Total revenue	**8.11**	9.40	9.26	9.10	9.06	8.73	8.52	8.31	8.20	7.99
Operating costs	**7.60**	5.99	4.89	4.93	4.73	4.63	4.47	4.27	4.18	4.02
Operating profit	**0.51**	3.41	4.37	4.17	4.33	4.10	4.05	4.04	4.02	3.97
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events^	**656**	1,164	1,056	1,148	1,134	1,246	1,327	1,408	1,761	1,769
Reportable events per million passengers carried^	**0.57**	0.69	0.58	0.65	0.66	0.73	0.79	0.88	1.13	1.19
Number of staff and contractors' staff accidents∆	**51**	81	50	46	61	64	57	67	58	44
Light Rail										
Number of reportable events^	**80**	163	87	104	191	157	122	118	151	164
Reportable events per million passengers carried^	**0.72**	1.05	0.48	0.58	1.07	0.89	0.70	0.69	0.90	1.02
Number of staff and contractors' staff accidents∆	**10**	8	2	5	8	6	4	4	2	7
Employees										
Hong Kong										
Corporate management and support departments	**1,852**	1,899	1,932	1,882	1,837	1,792	1,756	1,676	1,600	1,486
Station commercial businesses	**224**	234	204	191	192	182	170	158	148	144
Operations	**11,983**	12,211	11,948	11,591	11,349	10,891	10,404	10,033	9,460	9,244
Projects	**1,426**	1,531	1,711	2,144	2,615	2,684	2,764	2,804	2,495	2,109
Property and other businesses	**1,548**	1,549	1,500	1,440	1,416	1,384	1,350	1,305	1,273	1,282
Mainland of China and international businesses	**255**	318	331	276	230	194	180	182	224	179
Outside of Hong Kong										
Offshore employees	**16,921**	16,521	14,270	10,781	9,866	8,157	7,530	7,078	6,955	6,851
Total	**34,209**	34,263	31,896	28,305	27,505	25,284	24,154	23,236	22,155	21,295

@ *High Speed Rail service commenced on 23 September 2018.*

\# *Average of 23 September 2018 to 31 December 2018.*

\## *Average of 1 to 29 January 2020.*

& *Market share for 2018 was rebased to reflect the impact on the opening of Hong Kong – Zhuhai – Macao Bridge.*

* *Does not include the High Speed Rail service.*

^ *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, Government of the Hong Kong SAR under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.*

∆ *Any accident connected with the operation of the railway or with the maintenance thereof, which is notifiable to Railway Branch, Electrical & Mechanical Services Department according to Mass Transit Railway Regulations, as a result of which an employee of the Corporation or of a contractor with the Corporation is suffering 'fatal injury', 'serious injury', or unable to fully carry out his / her normal duties for a period exceeding 3 days immediately after the accident.*

INVESTOR RELATIONS

MTR has been participating in international capital markets for over four decades. During this time, we have built a reputation as a leader in investor relations practices in Asia, respected for our high standards of corporate governance and disclosure. We believe that communicating our strategies, business development and future outlook in a clear, transparent and proactive manner enhances shareholder value, and we engage regularly with both institutional and retail investors.

COMMUNICATING WITH INVESTORS

Our continuous engagement with the investment community has made MTR one of the most widely covered listed companies in Hong Kong. We are followed by many international and local brokers, research analysts, and a wide range of institutional investors.

MTR management makes every effort to ensure that investors have a thorough understanding of the Company's business. In 2020, we held 271 meetings with institutional investors and analysts globally. Many of these meetings were held with the aid of technologies in observance of social distancing requirements.

The Company's Annual General Meeting ("AGM") is one of its principal channels of communication with shareholders. Further details on the 2020 AGM are set out in the "Annual General Meeting" section of the "Corporate Governance Report" on page 121 of this Annual Report.

ACCESS TO INFORMATION

Our corporate website provides investors with equal and timely access to Company information. The Investor Information section provides details on our financial performance in readily accessible form. Financial reports, patronage figures, and other Company news and stock exchange filings are all accessible on the website.

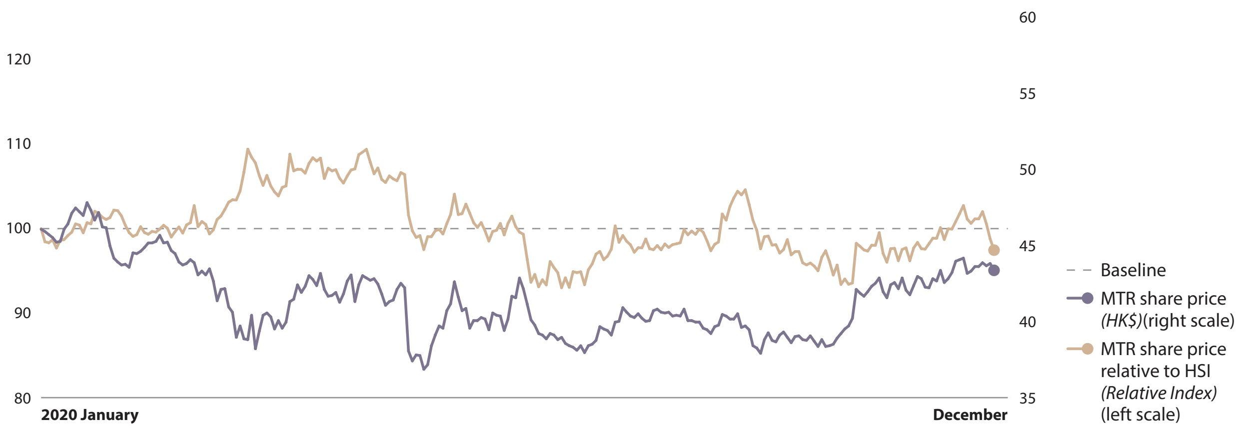
In addition to the shareholder services offered by Computershare, our dedicated hotline answered approximately 26,000 enquiries from individual shareholders in 2020.

INDEX LISTING AND RECOGNITIONS

The Company's shares have been listed on the Stock Exchange of Hong Kong since 2000 and have been included as one of the Hang Seng Index's constituent stocks since 2001.

Our Annual Report achieves considerable recognition each year for presenting a clear picture of the Company's performance and strategy. These are listed in the "Key Awards" section on page 7 of this Annual Report.

SHARE PRICE PERFORMANCE



FINANCIAL CALENDAR 2021

Announcement of 2020 annual results	11 March
Annual General Meeting	26 May
Last day to register for 2020 final dividend	31 May
Book closure period	1 June to 4 June
2020 final dividend payment date	20 July
Announcement of 2021 interim results	August
2021 interim dividend payment date	October
Financial year end	31 December

DIVIDEND INFORMATION

Dividend per Share

	(in HK$)
2019 Total Ordinary Dividend	1.23
2020 Interim Ordinary Dividend	0.25
2020 Final Ordinary Dividend	0.98

Dividend history can be found in the "Ten-Year Statistics" section on page 94 of this Annual Report and our corporate website.

Dividend Policy

MTR is committed to a progressive ordinary dividend policy. The aim of this policy is to steadily increase or at least maintain the Hong Kong dollar value of ordinary dividends per share annually. The prospective dividend growth, however, remains dependent upon the financial performance and future funding needs of the Company.

SHAREHOLDINGS AS AT 31 DECEMBER 2020

Ordinary Shares

Shares outstanding	6,180,927,873 shares
Hong Kong SAR Government Shareholding	4,634,173,932 shares (74.98%)
Free float	1,546,753,941 shares (25.02%)

Market Capitalisation

(as at 31 December 2020)	HK$ 267,943 million

SHARE INFORMATION

Stock Codes

Ordinary Shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK Equity

CONTACTS

Shareholder Services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong

Telephone: (852) 2862 8628
Facsimile: (852) 2529 6087

Shareholder Enquiries

Shareholders are, at any time, welcome to raise questions and request information (to the extent it is publicly available) from the Board and management by writing to the Company Secretary, MTR Corporation Limited, MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong. Any such letter from the Shareholders should be marked "Shareholders' Communications" on the envelope.

Our enquiry hotline is operational during normal office hours:
Telephone: (852) 2881 8888

Investor Relations

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong

Email: investor@mtr.com.hk

Annual Report 2020

Shareholders can obtain copies of our annual report by writing to:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong

If you are not a shareholder, please write to:

Corporate Affairs Division, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website.

Principal Place of Business and Registered Office

MTR Corporation Limited, incorporated and domiciled in Hong Kong.
MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong

Telephone: (852) 2993 2111
Facsimile: (852) 2798 8822

CORPORATE GOVERNANCE REPORT

Strong governance is important for the Company in achieving its vision and fulfilling its purpose, and doing so in a way that delivers long term sustainable growth for its stakeholders. This Report describes the corporate governance best practices that the Company has adopted and highlights how the Company has applied the principles of the Code Provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

Corporate governance is the collective responsibility of the Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board actively seeks opportunities for continuous improvement in the area of corporate governance and takes prompt action in responding to identified improvement opportunities. According to the "2020 HKIoD Corporate Governance Scorecard" announced by The Hong Kong Institute of Directors in May 2020, the Company is one of the top 10 listed companies with the highest Corporate Governance Index scores.

Following the unearthing of various issues arising from the construction of the Hung Hom Station Extension of the Shatin to Central Link project in 2018, improvements have been identified for implementation progressively starting from 2019. In March 2020, the Commission of Inquiry ("COI") Final Report was issued and a progress summary is as follows:

- Several working groups have been established to oversee the implementation of the recommendations from the COI Interim and Final Reports ("COI Reports");
- A cross-referencing check has been carried out between the recommendations from the COI Reports, the recommendations from Government appointed Expert Advisor Team and the recommendations coming out of the Company's own work to enhance its project management system to identify common themes;
- The Building Excellence Quality Working Group is responsible for coordinating and reporting on the implementation of these recommendations to the Building Excellence Board monthly and to the Capital Works Committee quarterly; and
- In relation to the recommendations from the COI Reports, an external consultant has been appointed to audit the implementation of the recommendations.

Acting through the Risk Committee and the Audit Committee, the Board has mandated a review of the internal control and risk management systems of the Company for Hong Kong operations. Following the first phase review conducted in 2019, an external consultant, Arthur D Little, was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence framework, with a view to identifying any gaps in the framework and making recommendations for improvement. The results of this assessment were presented to and endorsed by the Risk Committee and the Audit Committee in late 2020. The next phase of the project will be to strengthen the Company's Second Line of Defence (in particular) in certain key risk areas through the establishment of new technical and engineering Centres of Excellence and the adoption of a new assurance framework. A further update on progress will be presented to the Risk Committee and the Audit Committee in mid-2021.

In addition, a Board evaluation exercise, assisted by an external consultant, has been kicked off in the third quarter of 2020, with the aim of ensuring that the Company's Board is fit for purpose to support the implementation of the new corporate strategy. The exercise will review the composition of the Board, the structure, composition and authority of the Board Committees, the information provided to the Board and the Board decision-making process and effectiveness.

Recognising the increasing importance of Environmental, Social and Governance ("ESG") issues as criteria for assessing a company's long term sustainability and performance, the Company publishes a separate Sustainability Report to keep its stakeholders abreast of the Company's initiatives and performance in the ESG arena on an annual basis.

The Company has followed the ESG Reporting Guide ("ESG Guide") as set out in Appendix 27 to the Listing Rules and has made reference to various international reporting standards and guidelines in the preparation of its Sustainability Report. The Company substantially meets the new requirements under the ESG Guide, which will be implemented for financial years commencing on or after 1 July 2020. The Company's Sustainability Report is available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.

CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2020, the Company has complied with the CG Code. In the following corporate governance areas, the Company's practices have exceeded the relevant CG Code/Listing Rules requirements:

Corporate Governance Areas	Details of Exceedance
Number of Independent Non-executive Directors ("INED")	The number of INEDs represents more than two-thirds of the Board, which exceeds the independence requirement under the Listing Rules
Number of Members of Audit Committee	The Audit Committee consists of five INEDs, which exceeds the independence requirement under the Listing Rules
Number of Regular Board Meetings	The Company holds seven Regular Board Meetings each year; in addition, there are Special Board Meetings when required, which exceeds the requirement under the CG Code
Notice of Regular Board Meetings	The dates of Regular Board Meetings for the following year are usually fixed in the third quarter of the prior year
Model Code Confirmation	• Confirmation of Compliance with the Model Code is obtained from each Director and Model Code Manager half-yearly • An electronic platform has been established to give a one-stop access to the relevant key processes to support compliance with the Model Code
Evaluation of the Effectiveness of Risk Management System	The Company reviews not only the effectiveness of the risk management system of the Company and its subsidiaries, but also that of its key associates operating in Mainland of China and overseas

The Company continues to monitor developments in the arena of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of stakeholders.

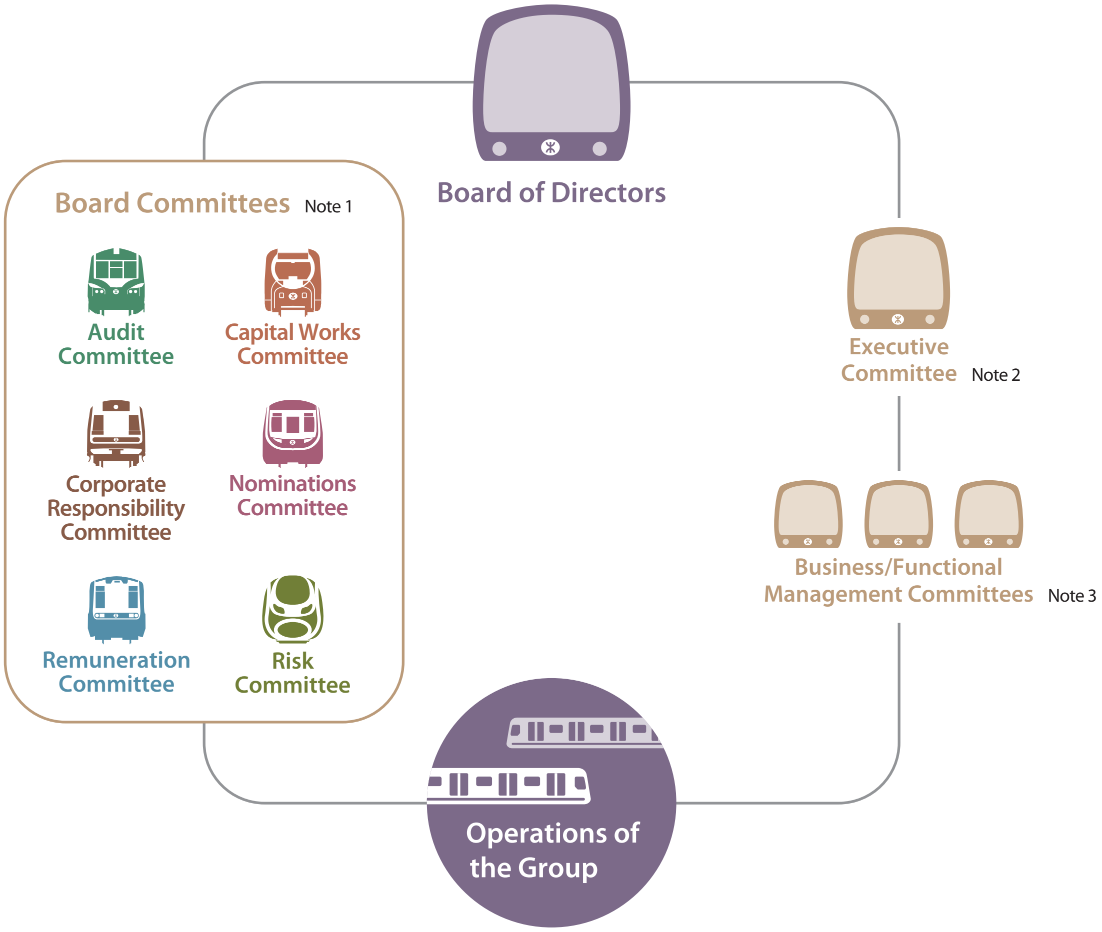
THE BOARD OF DIRECTORS

Overall Management

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the "Protocol: Matters Reserved for the Board" (the "Protocol") adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, corporate governance, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, corporate governance functions, risk management and internal control systems, treasury policies and fare structures.

The commencement of the new signalling system and gradual introduction of nine-car trains on the East Rail Line as part of the Shatin to Central Link project, originally scheduled in mid-September 2020, was deferred to February 2021 due to a signalling system issue which could have had a potential service impact. Overseen by the Board, which received and reviewed the investigation reports in detail, investigations have been undertaken and improvement actions have been identified for implementation.

Below is a diagram of the governance structure of the Company:



Notes:

1 *All Board Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense, to perform their responsibilities. The Terms of Reference of each Committee are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.*

2 *The Executive Committee is delegated by the Board to handle the day-to-day management of the Company's business pursuant to the Articles of Association and the Protocol; and is chaired by the Chief Executive Officer ("CEO") and made up of nine other Members of the Executive Directorate.*

3 *Key Business/Functional Management Committees are listed out on pages 115 to 116 of this Annual Report.*

Composition of the Board

A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 138 to 150 of this Annual Report.

As at the date of this Report, the Board has 20 Members, made up of 14 INEDs, five Non-executive Directors ("NEDs") and one Executive Director. The number of INEDs currently comprises more than two-thirds of the Company's Board, which is well above the Listing Rules requirement of having one-third of a board made up of INEDs. This structure ensures that the Board comprises a majority of independent members, which is conducive to maintaining an independent and objective decision-making process.

Government, through The Financial Secretary Incorporated, held approximately 74.98% of the issued shares of the Company as at 31 December 2020, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of her right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

- The office of the Secretary for Transport and Housing (currently held by Mr Frank Chan Fan);
- The office of the Permanent Secretary for Development (Works) (currently held by Mr Lam Sai-hung); and
- The office of the Commissioner for Transport (currently held by Miss Rosanna Law Shuk-pui).

The Additional Directors are all NEDs and are treated for all purposes (other than the requirement to retire by rotation according to the Articles of Association) in the same way as other Directors and are, therefore, subject to the usual common law duties of directors, including the requirement to act in the best interests of the Company.

Mr Christopher Hui Ching-yu, the Secretary for Financial Services and the Treasury, is another NED of the Company.

Coming from diverse business and professional backgrounds, Members of the Board actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. In addition, the INEDs also contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subject to objective and dispassionate consideration by the Board.

Chairman and CEO

The posts of the Chairman and the CEO are distinct and separate. Their respective roles and responsibilities are set out below:

Chairman (Non-executive Director)

- Chairing and managing the operations of the Board;
- Monitoring the performance of the CEO and other Members of the Executive Directorate;
- Making sure that adequate information about the Company's business is provided to the Board on a timely basis;
- Providing leadership for the Board and promoting a culture of openness;
- Ensuring views on all issues are exchanged by all Members of the Board in a timely manner;
- Encouraging Members of the Board to make a full and effective contribution to the discussion at Board Meetings; and
- Establishing good corporate governance practices and procedures.

CEO (Executive Director)

- Head of the Executive Directorate;
- Chairman of the Executive Committee;
- Responsible to the Board for managing the business of the Company; and
- Responsible for performing a bridging function between the Board and the Executive Directorate.

Board Committees

The Board discharges some of its responsibilities through delegation, with appropriate oversight, to respective Board Committees. The Board Committee memberships and the attendance record of each Member of the Board in 2020 are set out on pages 112 to 113 of this Annual Report.

The duties and work performed by the Audit Committee, Risk Committee, Capital Works Committee and Remuneration Committee during the year are set out in their respective reports in this Annual Report:

- "Audit Committee Report" on pages 123 to 125;
- "Risk Committee Report" on pages 130 to 131;
- "Capital Works Committee Report" on page 132; and
- "Remuneration Committee Report" on pages 133 to 137.

Nominations Committee

Principal responsibilities:

- Reviewing the structure, size and composition (including the perspectives, skills, diversity, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- Identifying individuals suitably qualified to become Members of the Board and putting forward nominations or recommendations to the Board for proposed appointments to the Board;
- Assessing the independence of INEDs and, in case a proposed director will be holding his/her seventh (or more) listed company directorship, his/her ability to devote sufficient time to Board matters;
- Making recommendations to the Board on the appointment or re-appointment of Members of the Board and succession planning for Members of the Board; and
- Nominating and recommending to the Board, candidates for filling the positions of CEO, Finance Director and Chief Operating Officer (provided that the Chief Operating Officer position exists).

During the year, the Committee conducted reviews and made corresponding recommendations to the Board in respect of the following matters:

- Annual review of the structure, size and composition of the Board and a list of desirable skills/experience/perspectives for the Board;
- Annual assessment of the independence of each INED;
- Re-election of Members of the Board retiring at the Company's annual general meeting held on 20 May 2020 ("2020 AGM"); and
- Proposed nomination of new Members of the Board (i) for appointment by the Board during 2020; and (ii) for election by shareholders at the 2020 AGM.

As at the date of this Report, the Nominations Committee has conducted an annual review of (i) the current structure, size and composition of the Board and considered the same is appropriate in light of the Company's strategy and business needs; (ii) the Company's Board Diversity Policy (the "BD Policy"); and (iii) the list of skillsets of the Board. The Nominations Committee has also assessed that the Board (1) currently possesses a balanced mix of skills, experience and diversity of perspectives, (2) is in line with the Company's BD Policy, and (3) is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner. In addition, subject to the election of a new INED by shareholders at the forthcoming Annual General Meeting, he will hold cross-directorships with two NEDs of the Company and the Airport Authority. The Nominations Committee has assessed their cross-directorships and considered that this should not have an impact on the independence of such new INED with respect to his directorship with the Company since all three of them are not directly involved in the day-to-day operations of the Airport Authority.

Corporate Responsibility Committee

Principal responsibilities:

- Overseeing the Company's stakeholder engagement and external communication strategies;
- Recommending the Corporate Responsibility Policy to the Board for approval;
- Monitoring and overseeing the implementation of the Company's Corporate Responsibility Policy and related initiatives;
- Identifying emerging corporate responsibility issues arising from external trends;
- Reviewing the Company's annual Sustainability Report and recommending approval by the Board;
- Reviewing the Company's environmental and social performance; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Please also refer to the "Corporate Responsibility" section (pages 74 to 79) of this Annual Report.

Work performed during the year:

- Monitored the advancement of the New Social Objectives of Social Inclusion, Greenhouse Gas Emissions and Advancement & Opportunities;
- Monitored the progress of various youth, elderly and district-level community engagement and investment programmes;
- Reviewed a series of special measures and partnering initiatives in response to COVID-19 to help the community tide over the challenges amidst the pandemic;
- Reviewed the development and strategic way forward for the "More Time Reaching Community" Volunteering Scheme;
- Reviewed and recommended the 2019 Sustainability Report to the Board for approval;
- Considered the Company's performance on various local and international sustainability indices; and
- Endorsed the commencement of a Carbon Reduction Study.

Company Secretary

Ms Gillian Elizabeth Meller, being the Legal and Governance Director and a Member of the Executive Directorate, reports to the CEO. Her role as the Company Secretary includes:

- Providing access to advice and services for Members of the Board;
- Ensuring the correct Board procedures are followed;
- Advising the Board on all corporate governance matters;
- Arranging for Members of the Board, their Alternate Directors and Members of the Executive Directorate, upon their appointment, to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules;
- Recommending Members of the Board, their Alternate Directors and Members of the Executive Directorate to attend relevant seminars and courses; and
- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2020, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

Appointment, Re-election and Removal of Members of the Board

A person may be appointed as a Member of the Board at any time either by:

- the shareholders in general meeting in accordance with the "Appointment Procedure for Members of the Board of the Company", which is available on the website of the Company (www.mtr.com.hk); or
- the Board upon the recommendation of the Nominations Committee of the Company; or
- the Chief Executive of the HKSAR in the case of the Additional Directors.

Members of the Board who are appointed by the Board during a year must retire at the first annual general meeting after their appointment and are eligible for election at that meeting.

Except for the Additional Directors, all other Members of the Board are required to retire by rotation. At each annual general meeting of the Company, Members of the Board who were last elected or re-elected at the annual general meeting which was held in the third calendar year prior to the annual general meeting in question, are those who will retire by rotation.

The Additional Directors may not be removed from office except by the Chief Executive of the HKSAR and are not subject to any requirement to retire by rotation.

The Company has a service contract with each of the NEDs (with the exception of the Additional Directors) and the INEDs, specifying the terms of his/her continuous appointment as a NED or an INED and as the chairman or a member of the relevant Board Committee(s), for a period not exceeding three years.

Nomination Policy

A Nomination Policy (the "Nomination Policy"), documenting the procedures and practices that have been adopted by the Company, is posted on the Company's website (www.mtr.com.hk).

The Nomination Policy sets out the process and procedures for governing the nomination of Members of the Board applicable to both new appointments and re-appointments, except for appointments made by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance and nomination by shareholders of the Company in accordance with the Articles of Association.

The Board has delegated to the Nominations Committee the authority to identify and assess potential candidates for appointment to the Board through different means and channels, including recommendations from Members of the Board, use of external search firms, and any other means or channels that it deems appropriate.

Nomination Procedures

The following diagram demonstrates the nomination procedures for new appointment and re-election of a Member of the Board:

Nominations Committee

New Appointment

- Request the candidate to provide his/her biographical information and other information deemed necessary
- Review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required
- Invite the candidate to meet with the Nominations Committee members, at their discretion, to assist them in their consideration of the proposed nomination or recommendation
- Submit nomination proposal to the Board for consideration and approval or to make recommendation to the shareholders for approval

Re-election

- Review the profile of the Member of the Board who has offered himself/herself for re-appointment to consider his/her suitability in light of the strategy of the Company as well as the structure, size and composition of the Board at that time
- Make recommendation for the Board's consideration

Board

New Appointment (NEW)

Re-election

Consider recommendation from the Nominations Committee and approve the appointment during the year

Consider recommendation from the Nominations Committee and make recommendation to the shareholders for election (re-election) of the Member of the Board

Shareholders

Approve the election and/or re-election of new/existing Member of the Board at the Company's annual general meeting

Selection Parameters

In evaluating a proposed candidate, including a Member of the Board eligible for re-appointment, the Nominations Committee will consider the following factors (which are by no means exhaustive):

(i) the strategy of the Company;

(ii) the structure, size, composition and needs of the Board and its respective Board Committees at the time, taking into account succession planning, where appropriate;

(iii) the required skills, which should be complementary to those of the existing Members of the Board;

(iv) the BD Policy of the Company as amended by the Board from time to time;

(v) any information obtained through third party references or background checks;

(vi) any other factors that may be used as reference in assessing the suitability of a proposed candidate, including but not limited to the candidate's reputation for integrity, accomplishments and likely commitment in terms of time and interest;

(vii) if a proposed candidate will be holding his/her seventh (or more) listed company directorship, the candidate's ability to devote sufficient time to the Board; and

(viii) the independence of a candidate proposed to be appointed as an INED, in particular by reference to the independence requirements under the Listing Rules.

The Nominations Committee is vested with discretion to take into account such other factors that it may consider appropriate.

Board Diversity

The Company has posted its BD Policy on the Company's website (www.mtr.com.hk). The BD Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Members of the Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Company is conscious of maintaining a Board made up with INEDs as the majority, together with an appropriate level of female Members on the Board. While conscious efforts are being taken by the Company to fulfil its pledges, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

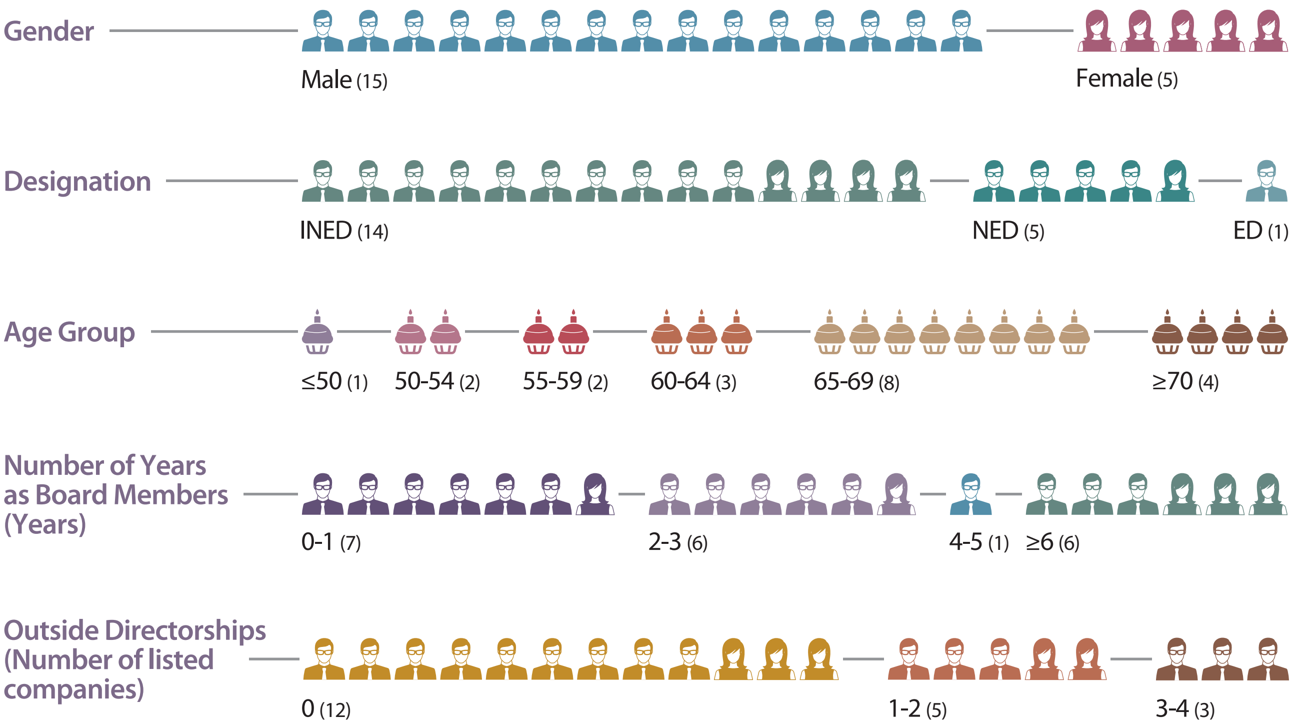
The Board reviews the BD Policy on a regular basis to ensure its continued effectiveness.

The BD Policy and the list of desirable skills/experience/perspectives Members of the Board were taken into account by the Nominations Committee and the Board in considering the following new appointments during the year:

(i) Dr Bunny Chan Chung-bun as an INED; and

(ii) Mr Christopher Hui Ching-yu as a NED.

The Committee and the Board formed the view that, with their different backgrounds and expertise, respective extensive experience and active involvement in community service, including youth development, social welfare and district council affairs, each of the new Members of the Board mentioned above would be a valuable addition to the Board and would further enrich the spectrum of skills, experience and diversity of perspectives of the Board, thereby enhancing the diversity and effectiveness of the Board.



Statutory Confirmations

For the year ended 31 December 2020, the Company has received an annual confirmation from each INED about his/her independence and, where applicable, the interests of his/her immediate family member(s) (as defined under the Listing Rules). The Nominations Committee has reviewed the said confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

Each Member of the Board ensures that he/she can give sufficient time and attention to the affairs of the Company and contribute to the development of the Company's strategy and policies through independent, constructive and informed comments.

Regarding disclosure of the number and nature of offices held by Members of the Board in public companies or organisations and other significant commitments, as well as their identity and the time involved (the "Commitments"), to the Company, all Members of the Board have disclosed their Commitments to the Company in a timely manner. In relation to the two Members of the Board having a common directorship as INEDs in the Company and another company listed on the Stock Exchange, the Nominations Committee has assessed during the year that the said cross-directorship should not undermine their independence.

Before each regular Board meeting, the Company reminds each Member of the Board to update his/her "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration"). The Declaration of each Alternate Director is sent to him/her for update on a quarterly basis. In addition, each Member of the Board and each Alternate Director is required to confirm his/her other directorships, major appointments and interests to the Company twice a year.

Save as disclosed in this Annual Report, none of the Members of the Board or the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) with another

Member of the Board or the Executive Directorate. In addition, none of the Members of the Board holds seven (or more) directorships in listed companies (including the Company) or holds any cross-directorships or has significant links with other Members of the Board through involvements in other companies or bodies as at 31 December 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that all Members of the Board and (where applicable) their Alternate Directors and all Members of the Executive Directorate have complied with the Model Code throughout the year.

Senior managers, other nominated managers and staff who, because of their office in the Company, may be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) of the Company (collectively the "Model Code Managers"), have also been requested to comply with the provisions of the Model Code.

The Company launched a Model Code Managers Management System in late 2019, which provides an electronic platform to give a one-stop access to the relevant key processes to support compliance with the Model Code and to enhance effectiveness in monitoring such compliance. Periodic training is also required to be completed by Model Code Managers.

DIRECTORS' INSURANCE

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' ("D&O") Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2020 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

CORPORATE GOVERNANCE FUNCTIONS REVIEW

The Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions and the latest review was done in March 2021. Below is a summary of the work performed during the year ended 31 December 2020 and up to the date of the Report:

- Reviewed the Company's policies and practices on corporate governance, including the corporate governance framework, the BD Policy and the Nomination Policy;
- Reviewed and monitored the training and continuous professional development of Members of the Board and senior management;
- Reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;
- Developed, reviewed and monitored the Code of Conduct and Directors' Manual; and
- Reviewed the Company's compliance with the CG Code.

The Board considers that, overall, the Company's Corporate Governance Functions are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

The Terms of Reference on Corporate Governance Functions are available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

BOARD PROCEEDINGS

The Board generally meets in person regularly. In light of the outbreak of Coronavirus Disease 2019 ("COVID-19") in 2020, electronic means have also been provided to Members of the Board to facilitate them to participate in meetings virtually, which is permissible under the Company's Articles of Association, while at the same time reducing face-to-face contact. The same arrangements also applied to the Executive Committee meetings and meetings of other Board Committees. The Company's introduction of an electronic meeting solution for Board meetings and Executive Committee meetings in 2017, which has subsequently been expanded to meetings of other Board Committees, has also enabled all Members of the Board, Executive Committee and other Board Committees to access meeting documents and join virtual meetings remotely in a secure, efficient and convenient manner.

All Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures. Members of the Board also have full access to Members of the Executive Directorate as and when they consider necessary.

The draft agenda for Board meetings is prepared by the Company Secretary and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Company Secretary not less than one week before the relevant Board meeting if they wish to include a matter in the agenda of the meeting. The agenda together with Board Papers are usually sent at least three days before the intended date of the Board meeting.

The Board meeting dates for the following year are usually fixed by the Company Secretary with the agreement of the Chairman, before communicating with other Members of the Board, in the third quarter of each year.

At regular Board meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business.

The CEO Report, provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company for the relevant month and provides key information in areas such as the Group's safety performance in different business sectors, financial activities, contingent liabilities, human resources developments and new railway projects, as well as a look ahead to key issues or events in the following three to six months. This CEO Report together with the discussions at Board meetings, ensures that Members of the Board have an overall understanding of the Company's business and other key information about the Company, and provides up-to-date information to enable them to make informed decisions for the benefit of the Company.

MATERIAL INTERESTS AND VOTING

All Members of the Board and the Executive Directorate are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the Company's shareholders as a whole. To this end, all of them are required to declare the nature and extent of their interests, if any, in any contract, transaction, arrangement or other proposal to be considered by the Board at Board meetings.

Unless specifically permitted by the Articles of Association, a Member of the Board cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he/she has an interest which he/she knows is material. For this purpose, the interests of a person who is connected with a Member of the Board (including any of his/her associates) are treated as the interests of the Member of the Board himself/herself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Member of the Board may not be included in the quorum for such part of a meeting that relates to a resolution he or she is not allowed to vote on but he or she shall be included in the quorum for all other parts of that meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Member of the Board's other interests or appointments.

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director and any Director holding a senior Government position, is not included in the quorum for that part of the meeting which relates to the contract, transaction, arrangement or other proposal being considered by the Board and in relation to which the conflict exists and is not allowed to vote on the related resolution.

There are a number of contractual arrangements that have been entered into between the Company and Government (and/or its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 161 to 182) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been treated.

Matters to be decided at Board meetings are decided by a majority of votes from Members of the Board allowed to vote, although the usual practice is that decisions reflect the consensus of the Board.

BOARD MEETINGS

The Board held 15 meetings in 2020 (seven Regular Meetings and eight Special Meetings), well exceeding the requirement of the CG Code which requires every listed issuer to hold board meetings at least four times a year.

In addition and as required by the Listing Rules, the Chairman has met with INEDs only without the presence of other Members of the Board during the year, at which matters surrounding the functioning of the Board and the Management team, and the strategic direction and organisational matters of the Company were discussed.

Regular Meetings

At each Regular Meeting, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's different businesses and financial and operational performance.

In addition, other key matters discussed at Board meetings held in 2020 included:

- Strategy:
  - Receipt of updates on the development of the new Corporate Strategy and High-level Transformation Planning Project;
- Corporate Governance matters, including:
  - Annual review of the structure, size and composition of the Board and its corporate governance functions for 2019; annual assessment of (i) the independence of the INEDs; and (ii) the effectiveness of the Company's risk management and internal control systems for 2019;
  - Recommendation of the appointment of new Members of the Board and re-election of retiring Members of the Board for approval by shareholders at the 2020 AGM;
  - Approval of changes to the composition of Board Committees and the annual update to the Directors' Manual;
  - Receipt and consideration of reports from Management on key matters such as safety, risk management and sustainability; and
  - Receipt of shareholder analysis and investors' feedback;
- Operations:
  - Review of 2019 train service performance;
  - Receipt of updates on the Hung Hom derailment incident that happened in 2019;
  - Contract award for asset replacement project; and
  - Receipt of updates on a signalling replacement project and approval of funding for the said project;

- Consultancy:
  - Approval of the extension and renewal of the maintenance contract of the Automated People Mover System with Airport Authority;
- Projects:
  - Receipt of updates on the Shatin to Central Link project and related matters;
  - Receipt of update on the proposal and approval of budget for a consultancy for the Tung Chung Line Extension project at Lantau North; and
  - Receipt of updates/review/approval of technical and financial proposals/funding relating to proposed railway lines under the Railway Development Strategy 2014 ("RDS-2014");
- Mainland of China and International Businesses:
  - Receipt of updates on Macau, Mainland of China and International Businesses; and
  - Approval of contracts/tender submissions for projects in the Mainland of China and overseas;
- Property:
  - Approval of tenders arrangement for property development in Hong Kong; and
  - Receipt of update on a property development project in Hong Kong;
- Commercial and Marketing:
  - Approval of the Company's fares proposal for 2020 under the Fare Adjustment Mechanism and its implementation; and
  - Approval of renewal of a franchise agreement for station commercial space;
- Financial:
  - Approval of the 2019 Annual and the 2020 Interim Report and Accounts;
  - Receipt of updates on the financial and other impacts of COVID-19 and mitigation measures;
  - Approval of the renewal of the US$7 Billion Debt Issuance Programme; and
  - Approval of the 2021 Budget and Longer Term Forecast;
- Human Resources:
  - Approval of 2020 Annual Pay Review.

The minutes of Board meetings are prepared by the Company Secretary or her delegate with details of the matters considered by the Board and decisions reached, including any concerns raised by Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comments within a reasonable time after the meeting. The approval procedure is that the Board formally adopts the draft minutes at the subsequent meeting. If Members of the Board have any comments on the draft minutes, they will discuss it at that meeting and any agreed changes will be reflected in the formal minutes of the relevant meeting. Minutes of Board meetings are kept by the Company Secretary and are open for inspection by all Members of the Board at the Company's registered office.

Special Meetings

During 2020, a total of eight Special Meetings were held to consider various matters including the acquisition of interests in real estate properties in Hong Kong, the Shatin to Central Link project, the handling of the outbreak of COVID-19 and its financial impact on the Company, COVID-19 relief measures for passengers, the Tung Chung Line Extension project at Lantau North under RDS-2014, and investment projects in the Mainland of China.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 112 to 113 of this Annual Report.

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2020

	Attendance									
	Board Meetings		Board Committees Meetings						2020 AGM	Training[Ω]
	RM	SM	AC	NC	RC	CWC	RiskC	CRC		
Total Number of Meetings	7	8	4	2	4	4	4	2	1	
Members of the Board										
Non-executive Directors ("NED")										
Dr Rex Auyeung Pak-kuen (Chairman)	7/7	8/8		2/2	4/4			2/2[c]	1/1	√
Christopher Hui Ching-yu[1] (Secretary for Financial Services and the Treasury)	4/4	1/2		N/A	1/3				N/A*	√
Secretary for Transport and Housing (Frank Chan Fan)[2]	4/7	3/8		2/2	2/4				N/A#	√
Permanent Secretary for Development (Works) (Lam Sai-hung)[3]	5/7	4/8				4/4	3/4		N/A#	√
Commissioner for Transport (Rosanna Law Shuk-pui)[4]	2/2	1/1	1/1				1/1		N/A*	√
Independent Non-executive Directors ("INED")										
Andrew Clifford Winawer Brandler	7/7	5/8	3/4				4/4[c]		1/1	√
Dr Bunny Chan Chung-bun[5]	3/4	2/2						1/1	N/A*	√
Walter Chan Kar-lok	7/7	6/8		2/2				2/2	N/A#	√
Dr Pamela Chan Wong Shui	7/7	8/8		2/2[c]				2/2	1/1	√
Dr Dorothy Chan Yuen Tak-fai	7/7	7/8			4/4[c]	4/4			1/1	√
Cheng Yan-kee[6]	7/7	8/8			4/4	4/4[c]			N/A#	√
Dr Anthony Chow Wing-kin	7/7	8/8			4/4	2/4			N/A#	√
Dr Eddy Fong Ching	7/7	5/8	4/4[c]	2/2					1/1	√
James Kwan Yuk-choi	7/7	7/8				3/4	4/4		N/A#	√
Rose Lee Wai-mun	7/7	8/8	3/4				3/4		N/A#	√
Lucia Li Li Ka-lai[7]	7/7	6/8	4/4	1/1				1/1	N/A#	√
Jimmy Ng Wing-ka	7/7	7/8				4/4		2/2	N/A#	√
Benjamin Tang Kwok-bun	6/7	7/8			4/4		2/4		N/A#	√
Johannes Zhou Yuan	6/7	1/8	2/4				2/4		N/A#	√
Executive Director ("ED")										
Dr Jacob Kam Chak-pui (CEO)	7/7	8/8						2/2	1/1	√
Members of the Executive Directorate & the Executive Committee										
Dr Jacob Kam Chak-pui (CEO)	7/7	8/8						2/2	1/1	√
Adi Lau Tin-shing[8]									1/1	√
Roger Francis Bayliss[9]									1/1	√
Margaret Cheng Wai-ching								2/2	N/A#	√
Linda Choy Siu-min[10]								1/1	1/1	√
Dr Peter Ronald Ewen[11]									N/A#	√
Herbert Hui Leung-wah									1/1	√
Dr Tony Lee Kar-yun[12]									N/A#	√
Gillian Elizabeth Meller[13]									1/1	√
David Tang Chi-fai[14]									1/1	√
Jeny Yeung Mei-chun									1/1	√
Members departed during 2020										
NED										
James Henry Lau Jr[15] (Secretary for Financial Services and the Treasury)	1/3	2/6		1/2	0/1				0/1	x
Commissioner for Transport (Mable Chan)[16]	4/4	2/7	2/3				2/3		N/A#	√
INED										
Dr Allan Wong Chi-yun[17]	2/3	5/6		1/1		1/1[c]			1/1	x
Member of the Executive Directorate & the Executive Committee										
Linda So Ka-pik[18]									N/A	√

Legend:

Board Meetings
RM – Regular Meeting(s)
SM – Special Meeting(s)

Board Committee Meetings
AC – Audit Committee
NC – Nominations Committee
RC – Remuneration Committee
CWC – Capital Works Committee
RiskC – Risk Committee
CRC – Corporate Responsibility Committee

2020 AGM – Annual General Meeting of the Company held on 20 May 2020

N/A – Not applicable

***** – appointed after the conclusion of 2020 AGM

– not invited to attend 2020 AGM in person due to maintenance of social distancing during COVID–19

C – Chairman of the committee

Ω – This includes (i) continuous professional development through attending expert briefings/seminars/conferences relevant to the Company's business or directors' duties arranged by the Company or external organisations, and reading regulatory/corporate governance or industry related updates; and (ii) induction and familiarisation programmes attended by newly appointed Directors

Notes:

1. *Mr Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury) was appointed by the Board as a NED and a member of each of the NC and the RC of the Company, all with effect from 1 June 2020.*

   The alternate director of Mr Christopher Hui Ching-yu, acting on his behalf, attended one SM and two RC meetings. Mr Hui was not present at a portion of a Board Meeting at which the South Island Line (West) project was discussed for avoidance of any actual or perceived conflict of interest.

2. *The alternate directors of the Secretary for Transport and Housing (Mr Frank Chan Fan), acting on his behalf, attended three RM, two SM and two RC meetings. Mr Chan and his alternate directors were not present at the relevant Board Meetings or a portion thereof at which the Shatin to Central Link project and related matters, the Tung Chung Line Extension project at Lantau North, the Hung Shui Kiu Station submission, the Northern Link project and the South Island Line (West) project were discussed for avoidance of any actual or perceived conflict of interest.*

3. *Permanent Secretary for Development (Works) (Mr Lam Sai-hung) was not present at the relevant Board Meetings or a portion thereof at which the Shatin to Central Link project and related matters, the Tung Chung Line Extension project at Lantau North, the Hung Shui Kiu Station submission, the Northern Link project and the South Island Line (West) project were discussed for avoidance of any actual or perceived conflict of interest.*

4. *Miss Rosanna Law Shuk-pui became a NED of the Company with effect from 9 September 2020 when she took up the post of Commissioner for Transport (the "C for T"). She also became a member of each of the AC and the RiskC of the Company, both with effect from the same date. Miss Law was not present at a portion of a Board Meeting at which the South Island Line (West) project was discussed for avoidance of any actual or perceived conflict of interest.*

5. *Dr Bunny Chan Chung-bun was elected as a Board Member and became an INED of the Company with effect from the conclusion of the 2020 AGM, and was appointed by the Board as a member of the CRC of the Company with effect from the same date.*

6. *Mr Cheng Yan-kee was appointed by the Board as the chairman of the CWC of the Company with effect from the conclusion of the 2020 AGM.*

7. *Mrs Lucia Li Li Ka-lai was appointed by the Board as a member of the NC of the Company and ceased to be a member of the CRC of the Company, both with effect from the conclusion of the 2020 AGM.*

8. *Mr Adi Lau Tin-shing was appointed as the Managing Director – Operations and Mainland Business and ceased to be the Operations Director of the Company, both with effect from 1 January 2020.*

9. *Mr Roger Francis Bayliss was appointed as the Capital Works Director and ceased to be the Projects Director of the Company, both with effect from 22 February 2021.*

10. *Ms Linda Choy Siu-min was appointed as the Corporate Affairs Director and became a Member of the Executive Directorate and a member of the CRC of the Company, all with effect from 2 March 2020.*

11. *Following the retirement of Dr Peter Ronald Ewen immediately after 21 February 2021, Dr Ewen ceased to be the Engineering Director and a Member of the Executive Directorate of the Company, both with effect from 22 February 2021.*

12. *Dr Tony Lee Kar-yun was appointed as the Operations Director and became a Member of the Executive Directorate of the Company, both with effect from 1 January 2020.*

13. *Ms Gillian Elizabeth Meller was appointed as the Legal and Governance Director and ceased to be the Legal and European Business Director of the Company, both with effect from 22 February 2021.*

14. *Mr David Tang Chi-fai was appointed as the Property and International Business Director of the Company with effect from 22 February 2021; before then Mr Tang was appointed as the Property and Australian Business Director and ceased to be the Property Director of the Company, both with effect from 1 October 2020.*

15. *Mr James Henry Lau Jr resigned and ceased to be a NED and a member of each of the NC and the RC of the Company, all with effect from 1 June 2020.*

    The alternate directors of Mr James Henry Lau Jr, acting on his behalf, attended two RM, one SM, one NC meeting, one RC meeting and the 2020 AGM. Mr Lau and his alternate director were not present at the relevant Board Meetings or a portion thereof at which the Shatin to Central Link project and related matters, the Tung Chung Line Extension project at Lantau North, the Hung Shui Kiu Station submission and the Northern Link project were discussed for avoidance of any actual or perceived conflict of interest.

16. *Ms Mable Chan ceased to hold the post of the C for T with effect from 1 August 2020 and, as a result, ceased to be a NED and a member of each of the AC and the RiskC of the Company, all with effect from the same date.*

    The alternate director of the C for T (Ms Mable Chan), acting on her behalf, attended two SM, one AC meeting and one RiskC meeting. Ms Chan and her alternate director were not present at the relevant Board Meetings or a portion thereof at which the Shatin to Central Link project and related matters, the Tung Chung Line Extension project at Lantau North, the Hung Shui Kiu Station submission and the Northern Link project were discussed for avoidance of any actual or perceived conflict of interest.

    Before the post of the C for T was taken up by Miss Rosanna Law, the alternate director of the C for T attended one RM.

17. *Dr Allan Wong Chi-yun retired as an INED and ceased to be the chairman of the CWC and a member of the NC of the Company, all with effect from the conclusion of the 2020 AGM.*

18. *Ms Linda So Ka-pik resigned as the Corporate Affairs Director and ceased to be a Member of the Executive Directorate and a member of the CRC of the Company, all with effect from 16 January 2020.*

INDUCTION PROGRAMME AND OTHER TRAINING

Induction Programme

On appointment, each new Member of the Board (including Government-nominated Directors), Alternate Director and Member of the Executive Directorate is given a comprehensive, formal and tailored induction programme which covers:

- the roles of a director from the strategic, planning and management perspectives, as well as the essence of corporate governance and the trends in these areas; and
- the general and specific duties of a director under general law (common law and legislation) and the Listing Rules.

In addition to the above, a Familiarisation Programme to understand the key areas of the Company's business and operations is also provided.

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' roles and responsibilities, their key obligations from both a statutory and a regulatory perspective, and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated regularly to keep the contents up to date so that the Directors are kept abreast of changes and latest developments in the laws and regulations that are relevant to Directors and the Company. The latest updates to the Directors' Manual, approved by the Board in January 2021, reflect the Company's latest mission statement with new sections covering board evaluation and ESG being added.

Training and Continuous Professional Development

Members of the Board and the Executive Directorate

To assist Members of the Board and the Executive Directorate in continuing their professional development, the Company Secretary recommends them to attend relevant seminars and courses at the cost of the Company.

Board Visit

In October 2020, certain Members of the Board and the Executive Directorate visited The LOHAS, Malibu (LOHAS Park Package 5) and the Public Transport Interchange in LOHAS Park to understand the Company's latest property development in LOHAS Park.

Training

Materials on the subject of corporate governance and e-learning provided by the Stock Exchange are provided/notified to Members of the Board, Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of the latest developments on this front.

Each Member of the Board and the Executive Directorate has also provided to the Company a record of the training he/she has received during the year, which is set out on pages 112 to 113 of this Annual Report.

Senior Executives

A comprehensive and tailored training programme has been developed for the Senior Executives of the Company. This programme consists of a series of workshops, seminars, e-learning and benchmarking visits which are organised on an on-going basis.

To support the enhancement of the business acumen, leadership and management skills of the Senior Executives, professors from renowned business schools are engaged to share cutting-edge research and insights on thought leadership, leading change, digital transformation and innovation as well as contemporary management and business topics. Various tailored global leadership development virtual workshops were also organised in 2020 to enable key Senior Executives to enhance their leadership, customer-centric and strategic thinking capabilities.

ACCOUNTABILITY

Members of the Board are responsible for the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of the Group's consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated accounts for the year ended 31 December 2020, Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the consolidated accounts for the year ended 31 December 2020, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the external auditor of the Company (the "External Auditor") are set out on pages 186 to 189 of this Annual Report.

In support of the above, the consolidated accounts presented to the Board have been reviewed by Members of the Executive Directorate. For both the annual and interim reports and consolidated accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as any changes in accounting policies adopted by the Group, have been discussed and approved at the Audit Committee before adoption by the Group.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for the risk management and the internal control systems of the Company and its subsidiaries and reviewing their effectiveness. With the assistance from the Risk Committee and the Audit Committee respectively, the Board oversees the Company's risk management system (the "ERM" system) and internal control system on an on-going basis, sets appropriate policies and reviews the effectiveness of the systems at least annually.

The ERM system and the internal control system, with processes put in place by the Board, management and other personnel, are designed to manage (as opposed to eliminate) the risk of failure and provide reasonable assurance, and not absolute assurance, against material misstatement or loss, regarding the achievement of objectives in the following areas:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness of risk management

Systems Overview

The Executive Committee is responsible for:

- Implementing the Board's policies on risk management and internal controls;
- Identification and evaluation of the risks faced by the Company for consideration by the Board;
- Designing, operating and monitoring a suitable internal control system and an ERM system; and
- Providing assurance to the Board that it has done so, together with a confirmation that these systems are effective and adequate.

In addition, all employees have responsibility for risk management and internal controls within their areas of accountability.

Business/Functional Management Committees

A number of committees have been established to assist the Executive Committee in the management and control of the Company's various core businesses and functions. Key committees include:

- Operations Executive Management Committee
- Property Executive Management Committee
- Project Control Group
- Investment Committee
- European Business Management Committee
- Australian and International Consultancy Business Management Committee
- Mainland China Business Management Committee
- Macau Business Management Committee
- Information Technology Executive Management Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Executive Tender Panel/Tender Board

- Corporate Responsibility Steering Committee
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)
- Corporate Cyber Security Committee
- Corporate Security Management Committee
- Railway Development Steering Group
- Technical Management Steering Group
- Technology and Innovation Steering Committee
- Commercial Letting Committee
- High Speed Rail Executive Management Committee

Internal Audit

The Head of Internal Audit reports directly to the Board via the Audit Committee and reports administratively to the CEO. The Internal Audit Department ("IAD") has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes.

On a regular basis, it conducts audits on financial, operational and compliance controls and the risk management functions of the Company and its subsidiaries. Relevant members of the management team are responsible for ensuring that control deficiencies highlighted in internal audit reports are rectified within a reasonable time.

The IAD produces an annual internal audit plan for the Audit Committee's approval. The audits are selected based on a risk assessment to ensure that business activities with higher risks are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee including his opinion on the adequacy and effectiveness of the Company's internal control system.

ERM System

The ERM system is an essential and integral part of the Company's corporate governance framework and helps to sustain business success and create value for stakeholders. It involves a corporate-wide systematic risk identification and management process which aims to assist the Executive Committee and individual business unit managers to manage the key risks facing the Company and supports the Board in discharging its corporate governance functions.

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 126 to 129) of this Annual Report.

Control Activities and Processes

To ensure the efficient and effective operation of business units and functions, and the safety of the operating railway and construction works in railway projects, Corporation General Instruction(s) ("CGI(s)"), divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to monitor and enforce internal controls and evaluate their effectiveness.

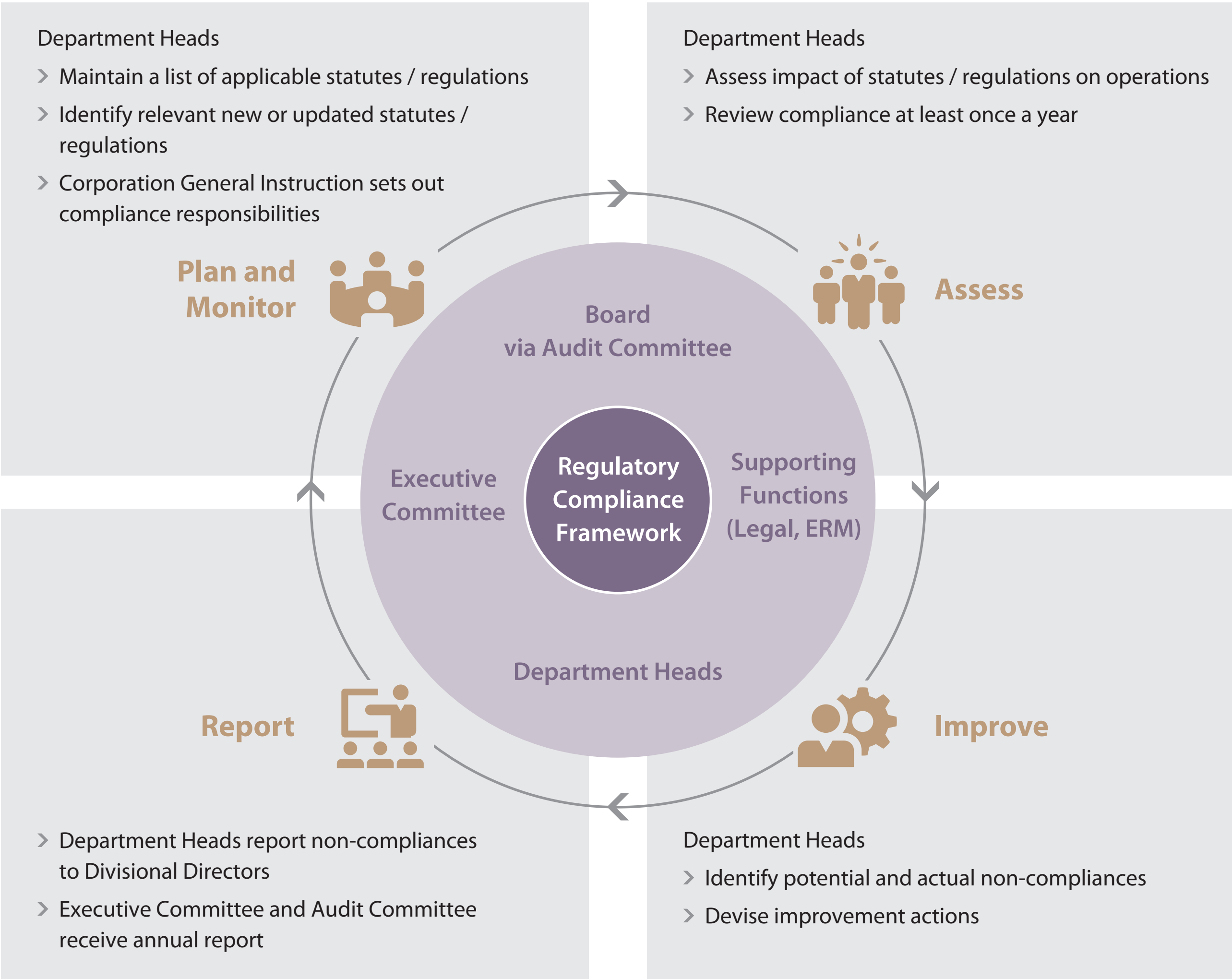
CGIs and various departmental procedures and manuals are established for preventing or detecting unauthorised expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records, and timely preparation of reliable financial information.

Divisional Directors, Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are required to conduct annual assessments and certifications on the effectiveness of risk management and internal control systems within their areas of responsibility.

Compliance with Statutes and Regulations

All Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are responsible for ensuring compliance with the statutes and regulations applicable to their own functional units in accordance with the Regulatory Compliance Framework, with necessary legal support.

Issues relating to compliance with statutes and regulations, including potential and actual non-compliances, and the status of rectification and actions taken to prevent recurrence are reported annually to the Executive Committee and the Audit Committee.



Whistle-blowing Policy

A whistle-blowing policy has been put in place to deal with concerns related to fraudulent or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal or reputational impacts on the Company. The policy applies to all staff, parties who deal with the Company as well as the general public. Every half year, a summary of all whistle-blowing cases handled by the Whistle Blowing Panel and staff complaints handled by the Human Resources Management Department and management initiated investigations are reported to the Executive Committee and the Audit Committee.

Inside Information Policy

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for the handling and dissemination of Inside Information, which encompasses the following:

- A CGI sets out:
  - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;
  - (ii) the responsibilities of Model Code Managers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
  - (iii) the process for disclosure of Inside Information;

- Training for Members of the Board and the Executive Directorate, Executive Managers, Department Heads and Model Code Managers is provided from time to time. In particular, Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers are regularly required to complete a computer-based training programme ("CBT Programme") on Inside Information. To refresh their awareness of the Inside Information policy, the CBT Programme as updated was re-launched in September 2020; and
- On-going training sessions on the latest developments/requirements of the SFO are arranged as appropriate.

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant requirement in the CG Code by completing an effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's key associates operating in Mainland of China and overseas. For the year ended 31 December 2020, the Risk Committee, with delegated authority from the Board, has evaluated the effectiveness of the ERM system of the Company and considers that it is overall effective and adequate.

Details about the "Process of System Effectiveness Review" are set out in the Risk Management section (page 129) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2020, the annual review of the effectiveness of the internal control system of the Company and its subsidiaries and key associates was performed by the Audit Committee based on the following:

- Review of significant issues arising from internal audit reports and the external audit report
- Private sessions with internal and external auditors
- Review of annual assessment and certification of internal controls from Members of the Executive Directorate, management of overseas subsidiaries and key associates and Department Heads in their areas of responsibility

→ The Audit Committee concluded that the internal control system was overall effective

Evaluation of the Adequacy of Resources of the Company's Accounting, Financial Reporting and Internal Audit Functions

For the year ended 31 December 2020, the annual assessment performed by the Finance Division and IAD concluded that there were adequate resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

The Company is committed to recruit, train and develop a team of qualified and competent accountants for overseeing the Group's financial reporting and other accounting-related matters. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance Director, who will conduct a formal annual review and report the review results to the Audit Committee.

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance and consulting services designed to add value and improve the Company's operations. A process to capture updated standards and best practices relating to internal audit is in place. Proper recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. The Head of Internal Audit conducts a formal annual review on the adequacy of staff resources, qualifications and experience of the internal audit function and reports the review results to the Audit Committee.

Based on the above, the Audit Committee considered the resources, qualifications and experience of staff, training programmes and budget of the Company's accounting, financial reporting and internal audit functions were adequate.

Board's Annual Review

The Board has, through the Risk Committee and the Audit Committee, overseen the Company's risk management and internal control systems on an on-going basis. The Board has conducted its annual review of the risk management and internal control systems of the Company and its subsidiaries and key associates for the year ended 31 December 2020, and considers that such systems are overall effective and adequate, with supporting compliance mechanisms to provide assurance that the Company and its officers observe their disclosure obligations in respect of Inside Information.

The Board has also conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2020, and considers the above resource components to be adequate.

CRISIS MANAGEMENT

To uphold the reputation of being one of the world's leading railway operators and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as Government departments and shareholders, the Company has an established mechanism to activate the formation of the Crisis Management Team in the event of a crisis. The Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Plan which, among other things, sets out the duties of respective members. The Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and disseminate crisis related information. Regular Crisis Management Team exercises are held to validate the crisis management organisation and arrangements and to provide practices for members.

In response to the outbreak of COVID-19 since early 2020, the Crisis Management Team was activated to monitor the situation and direct the Company's responses and actions in a coordinated manner, with a view to striving to safeguard the health and safety of our customers, staff and contractors and reducing the impacts on the Company's operations.

GOVERNANCE OF SUBSIDIARIES AND ASSOCIATES

The Company has a number of subsidiaries and associates which operate independent businesses in Hong Kong, Macau, the Mainland of China and overseas. Notwithstanding the fact that these subsidiaries and associates are separate legal entities, the Company has implemented a management governance framework (the "Governance Framework") to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and associates.

The Company's Governance Framework promotes collaboration between the corresponding functions in the Company on the one hand and the subsidiaries and associates on the other hand and the implementation process of the Governance Framework in the Company's subsidiaries and associates starts from inception of any new business operations/investments.

Pursuant to the Governance Framework, the Company exercises its control and oversight through formulation of a governance structure that is tailored for individual subsidiaries and associates through (i) imposition of certain internal controls in key areas; and (ii) adoption of management practices and policies that are appropriate to the business nature and local situation. As a result, adequate internal controls will be adopted by subsidiaries and associates and the Company will be consulted and notified on important matters, complemented by regular reporting and assurance. Compliance with this governance structure is reported by subsidiaries and associates with significant operations on an annual basis.

BUSINESS ETHICS

Practising integrity and responsible business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company in terms of ethical practices and obliges staff to operate transparently and under the highest principles of fairness, impartiality and integrity in all of the places where the Company does business.

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Following the release of an updated Code of Conduct in July 2020, a new series of staff awareness programmes was launched featuring animation videos and interactive games with real life examples to help staff members better understand the principles of the Code and if certain acts are unlawful or unacceptable. For instance, animation videos under the theme of Outside Work and Workplace Harassment were launched in July and October 2020 respectively. Other education programmes, including seminars and mandatory CBT Programmes were also introduced to raise staff awareness.

Staff members are encouraged to report existing or perceived violations of the Code of Conduct as well as malpractices. Proper procedures related to the whistle-blowing policy of the Company are also in place, enabling staff members to raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about any wrongdoings.

To assist new recruits in embracing the Company's values and ethical commitments, they are briefed on the Code of Conduct during the staff induction programme. New recruits are also required to complete the mandatory CBT Programmes within three months of joining the Company. The Code of Conduct is available on the Company's website (www.mtr.com.hk).

In addition, the Code of Conduct serves as a guideline for establishing a comparable ethical culture among our subsidiaries and associates in Hong Kong, Macau, the Mainland of China and overseas.

EXTERNAL AUDITOR

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services, for complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 10B to the consolidated accounts on page 214 of this Annual Report.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years in accordance with the Hong Kong Institute of Certified Public Accountants/International Federation of Accountants Code of Ethics.

COMMUNICATION WITH SHAREHOLDERS

Annual General Meeting (the "AGM")

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for the Chairman of the Company, the chairman of each Board Committee, all Members of the Executive Directorate and the External Auditor of the Company to attend AGMs to answer shareholders' questions. However, in light of the outbreak of COVID-19 and the Prevention and Control of Disease (Prohibition on Group Gathering) Regulations (Cap. 599G of the Laws of Hong Kong), only the Chairman of the Company, the chairman of each Board Committee, certain Members of the Executive Directorate and the External Auditor of the Company were invited to attend the 2020 AGM.

The 2020 AGM was held on 20 May 2020 and the Company continued providing sign language interpretation in addition to simultaneous Cantonese, English and Putonghua interpretation. The Company also implemented a number of precautionary measures for the 2020 AGM, including restricting the number of shareholders who could physically attend the 2020 AGM through pre-registration and requiring submission of questions in advance of the meeting. For the benefit of the Company's shareholders who were unable to physically attend the AGM, the Company arranged its first-ever live webcast of the AGM with three choices of language (Cantonese, English and Putonghua). The webcast of the whole proceedings was also posted on the Company's website in the same evening for viewing.

The 2021 AGM has been scheduled on 26 May 2021 and the Company plans to continue providing the abovementioned simultaneous interpretation to further facilitate smooth and direct communication between the shareholders of the Company and the Company's Directors and management. The Company is committed to making available meeting facilities to enable all eligible attendees to be able to participate in the AGM. In addition, the Company will continue to monitor the legal restrictions on public gatherings in light of the continuation of the COVID-19 pandemic and will make appropriate arrangements with a view to safeguarding the health and safety of attendees at the 2021 AGM while, at the same time, protecting shareholders' fundamental rights to attend, ask questions and vote.

Resolutions passed at the 2020 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2020 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2020 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 10 resolutions were passed at the 2020 AGM (with resolution no. 3 comprising four separate resolutions), each supported by over 98% of the votes cast. The full text of the resolutions is set out in the 2020 AGM Circular (which comprised Notice of the 2020 AGM) dated 14 April 2020 and the results of the AGM are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Calling General Meetings

Directors of the Company may call a general meeting of the Company.

Shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request the Directors of the Company to call a general meeting of the Company.

The requesting shareholders must state in their request the general nature of the business to be dealt with, and may include the text of a resolution to be moved at the general meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy or electronic form, which must be authenticated by the requesting shareholders.

The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests include a resolution to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. If the resolution is to be proposed as a special resolution, the Directors of the Company are required to specify the intention to propose the resolution as a special resolution in the notice of the general meeting.

If, within 21 days after the date on which the Company receives the required requests, the Directors of the Company do not proceed duly to call a general meeting, the shareholders who requested the general meeting, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a general meeting, provided that the general meeting must be called for a date not more than 3 months after the date on which the Company receives the required requests.

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association.

As regards proposing a person for election as a director, please refer to the "Appointment Procedure for Members of the Board of the Company" which is available on the website of the Company (www.mtr.com.hk).

Enquiries from Shareholders

The Company has a Shareholders' Communication Policy (available on the website of the Company (www.mtr.com.hk)) to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company's Shareholders Communication Policy has set out, amongst other things, a channel for shareholders access to the Board and management by writing to the Company Secretary of the Company.

Please also refer to the Investor Relations section (pages 96 to 97) of this Annual Report on other means of communication with shareholders.

CONSTITUTIONAL DOCUMENT

The Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2020, there was no change to the Articles of Association.

The Board has proposed to make certain amendments to the Articles of Association with a view to (i) providing greater flexibility for the Company in holding general meetings as hybrid meetings and conducting general meetings at more than one location where shareholders of the Company can participate using electronic facilities, in addition to/instead of attending physically; (ii) empowering the Board and the chairman of general meetings to make necessary arrangements for managing shareholders' attendance and/or participation and/or voting at general meetings; (iii) simplifying the calculation of the relevant value of scrip dividends under the Company's scrip dividend scheme in force from time to time; (iv) providing additional means for directors to approve written resolutions; and (v) making housekeeping amendments to align the Articles of Association with the Companies Ordinance.

The proposed amendments will be subject to the approval of the shareholders of the Company by way of a special resolution at the forthcoming Annual General Meeting. Details will be set out in the circular to be issued to shareholders together with this Annual Report.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 11 March 2021

AUDIT COMMITTEE REPORT

As at the date of this Report, the Audit Committee of the Company (referred to as the "Committee" in this Report) consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company. Details of the Committee's membership and their attendance records during 2020 are set out on pages 112 to 113 of this Annual Report. None of the Committee members is a partner or former partner of KPMG, the Company's external auditor.

The Finance Director (the "FD"), the Head of Internal Audit (the "Head of IA") and representatives of the external auditor attend all meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee normally meets four times a year, and the Chairman of the Committee, the external auditor or the FD may request additional meetings if they consider necessary. The Committee may, upon request, approve the appointment of the Company's external auditor for undertaking non-audit work.

TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference of the Committee (the "ToR") is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

DUTIES OF THE COMMITTEE

Under the ToR, the duties of the Committee primarily comprise the following:

- Oversight of the relationship with the Company's external auditor, including making recommendations to the Board on the appointment of and any change to the Company's external auditor and communicating with the external auditor on financial matters of the Company;
- Review of the financial information of the Company, including monitoring the integrity of financial statements;
- Oversight of the Company's financial reporting and internal control systems, including overseeing the adequacy of the resources and competence of the Company's accounting and financial reporting functions; and
- Overseeing the Company's Internal Audit function, including liaison with the Head of IA, approval of the annual internal audit plan of the Company and receiving periodic reports from the Head of IA.

More details on the duties of the Committee are set out in the ToR and further information can be found in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 115 to 119 of this Annual Report.

Reporting to the Board

The Chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom in a report to the Board after each Committee meeting.

The minutes of Committee meetings are prepared by the secretary of the meetings with details of the matters considered by Committee members and decisions reached, including any concerns raised by Committee members, dissenting views expressed and suggestions for enhancing the governance and internal control systems of the Company. The draft minutes are circulated to Committee members for comment after each meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that Committee members may have made. Minutes of Committee meetings are open for inspection by Committee members at the Company's registered office.

In advance of the first regular Committee meeting each year, the secretary of the meetings pre-agrees key agenda items for the year with the Chairman of the Committee who makes a final determination on the agenda for the Committee meetings.

WORK PERFORMED BY THE COMMITTEE IN 2020

In 2020, the Committee held four regular meetings. Representatives of the external auditor, the FD and the Head of IA attended all four regular meetings to report and answer questions about their work. In addition, relevant Members of the Executive Directorate were invited to join certain presentations to the Committee. The Committee also held private sessions with the external auditors without the presence of Management during the year.

The Committee devoted its attention to the review of the Company's annual and interim results announcement/accounts at the February and July meetings respectively, allowing more time to review and discuss the Company's internal controls, internal audit and other activities at the May and November regular meetings.

Acting through the Risk Committee and the Committee, the Board has mandated a review of the internal control and risk management systems for the Company's Hong Kong operations. In 2020, an external consultant was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence framework, with a view to identifying any gaps in the framework and making recommendations for improvement. The results of this assessment were presented to and endorsed by the Risk Committee and the Committee in late 2020. The next phase of the project will be to strengthen the Company's Second Line of Defence (in particular) in certain key risk areas through the establishment of new technical and engineering Centres of Excellence and the adoption of a new assurance framework. A further update on progress will be presented to both Committees in mid-2021.

The following key matters were reviewed/considered/endorsed (as relevant) by the Committee in 2020:

Financial

- The draft 2019 Annual Report and Accounts and 2020 Interim Report and Accounts, including the financial impact of the Company's railway construction projects under entrustment by the HKSAR Government, and the relevant disclosure notes in the said Accounts and recommendation of the same for the Board's approval;
- Updates on the carrying value of the Group's properties and rail fixed assets;
- Updates on the latest positions of the Company's railway construction projects under entrustment by the HKSAR Government;
- Update relating to Service Concession Payments and tax matters;
- 2020 cost savings analysis; and
- Preview of the 2020 interim and annual accounting and financial reporting issues.

Internal Audit and Internal Control

- Risk Management and Internal Control Systems Effectiveness for 2019 for submission to the Board (focused on the internal control system, as the risk management system effectiveness was separately reviewed and endorsed by the Risk Committee of the Company);
- Report on Evaluation of Effectiveness of Internal Audit Department for 2019;
- Continuing Connected Transactions for 2019;
- Internal Audit Department's Reports;
- Whistle-blowing Progress Reports; and
- Approval of the 2021 Internal Audit Plan.

External Auditor

- KPMG's reports on the salient features of the 2019 Annual Accounts and 2020 Interim Accounts respectively;
- 2019 Auditor's Report;
- KPMG's independence and other relevant factors when approving the appointment of KPMG in providing non-audit services; pre-approval of the engagement of KPMG to provide non-audit services; and KPMG's confirmation of independence in its audit report in respect of the 2019 Annual Accounts and 2020 Interim Accounts respectively;
- Summary of KPMG services provided to the Company and fees received by them;
- Approval of KPMG's fee proposal for the 2020 annual audit and the 2021 interim review, as well as other audit related and tax services; and
- KPMG's audit plan and strategy for the year ended 31 December 2020.

Governance

- Report on compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements in 2019 and outstanding litigation/potential litigation;
- Updates on the Three Lines of Defence of the Company; and
- Summaries on the salient features of the Audit/Risk/Governance Committee Minutes of various subsidiaries of the Company.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Committee was satisfied with KPMG's work, its independence and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2021 for approval by the Company's Shareholders at the 2021 Annual General Meeting.

Dr Eddy Fong Ching
Audit Committee Chairman
Hong Kong, 11 March 2021

The Audit Committee Report has been reviewed and endorsed by the Committee.

RISK MANAGEMENT

SYSTEM FEATURES

Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to:

- Identify and review risks across all business units of the organisation
- Prioritise resources to manage risks
- Give management a clear view of the significant risks facing the Company
- Support decision making and project execution for better business performance

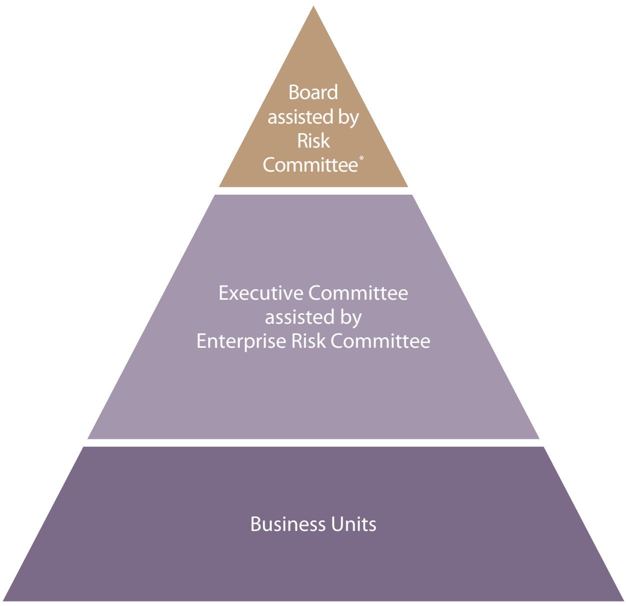
The Board, with the assistance of the Risk Committee, oversees the Company's ERM framework and top risks, whereas the Executive Committee, with the support of the Enterprise Risk Committee ("ERC"), is overall accountable for the ERM policy and system implementation and continuous improvement.

The Executives provide top-down views on the key risks of the Company through discussions on the quarterly enterprise risk reports. Two "Blue Sky" workshops were also held in February and August 2020 adopting a "futures" thinking approach. At the February workshop, the Executives reviewed the latest challenges around Environmental, Social and Governance ("ESG") issues, which provided important input to the development of the new Corporate Strategy. As disclosed elsewhere in this Report, the outbreak of the COVID-19 pandemic has significantly affected the Company's businesses. While the ultimate duration and scale of the COVID-19 impact remain uncertain, at the August workshop the Executives deliberated on potential medium and long-term risk scenarios arising from the pandemic, with follow-up actions formulated to mitigate the associated impacts.

The Company's risks are rigorously identified, assessed and managed. Each risk is evaluated on the basis of the likelihood of the identified risk and the consequence of the risk event, taking into consideration the control measures in place. A risk matrix is used to determine risk ratings (E1 – E4), with E1 being a very high risk and E4 being a low risk. The risk ratings reflect the required management attention and risk treatment effort, and take into account the Company's risk appetite. The highest category of risks, "E1", is subject to Board, Risk Committee and Executive Committee oversight.

While risk taking is inevitable in the course of business, the Company's appetite for risk varies, but is particularly low in certain areas, such as in relation to safety and the provision of a reliable transport service.

The Company's ERM system provides an important internal control in identifying and managing risks affecting the Company. As a learning organisation, the Company constantly looks for improvement opportunities through internal and external reviews and studies, as well as learning from incidents encountered during its operations. The commencement of the new signaling



- Exercise ongoing risk oversight
- Establish appropriate risk management strategies
- Oversee the ERM framework
- Review top risks and emerging risks
- Conduct annual review of ERM system effectiveness

- Implement and continuously improve ERM framework
- Enterprise Risk Committee
  - Chaired by Legal and Governance Director
  - Comprises representatives from key business functions
  - Steers framework implementation and improvement
  - Reviews Company's top risks and key emerging risks
  - Reports to Executive Committee and Risk Committee quarterly, and to Board every six months

- Establish arrangements and implement risk management process consistent with the Company's ERM framework and policy
- Capture identified risks in risk registers for regular review and monitoring

* *See the Risk Committee Report (pages 130 to 131 of this Annual Report) for duties and work performed by the Committee in 2020*

system and gradual introduction of nine-car trains on the East Rail Line as part of the Shatin to Central Link project, originally scheduled in mid-September 2020, has been deferred to February 2021 due to a signaling system issue which could have had a potential service impact. Investigations have been undertaken and improvement actions have been identified for implementation.

MANAGEMENT PROCESS FOR SIGNIFICANT RISKS

The Company takes proactive measures to identify, evaluate and manage significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Risk management strategies are developed for different areas including but not limited to construction, operations, finance, treasury, safety and insurance.

The ERM Team within the Legal and Governance function maintains a list of running issues and risk drivers pertinent to the changing business and external environments, which is used to assist the ERC in identifying potential risks that may emerge.

In addition, the ERC, the Executive Committee and the Risk Committee review the Company's enterprise risk profile and brainstorm emerging risks quarterly to ensure that key risks and those cutting across different areas of the business are captured.

Identify Risk*	Evaluate Risk	Treat Risk*	Report and Monitor Risk
• Existing businesses • Changing external environment • New projects or business ventures • New and emerging issues or trends which may pose significant risks • List of running issues and risk drivers for brainstorming • Change in laws and regulations	• Evaluate risk by estimating likelihood and consequence of the risk event • Determine risk rating using the risk matrix (E1-E4)	• Take into account risk appetite • Avoid risks where no appetite and possible to do so • Mitigate – review controls in place to evaluate adequacy and effectiveness and ensure owners in place to implement • Transfer – take out insurance to transfer risks where cost effective and efficient • Accept once mitigated to an appropriate level	• Capture risks in risk registers • Periodic ERM reports to – Enterprise Risk Committee – Executive Committee – Risk Committee – Board

* *Areas below are not exhaustive*

In 2020, the COVID-19 pandemic emerged as a key risk that is significantly affecting the Company's businesses and has required careful management to mitigate the financial, operational, human resources and societal impacts. The Infectious Disease Management Team ("IDMT") has been activated to coordinate corporate-wide strategic response actions across the Company according to the Infectious Disease Business Continuity Plan, including overseeing the stock level of Personal Protective Equipment ("PPE"), recommending work arrangements for risk reduction and issuing notices and situation reports for staff communication. The Company has made extra efforts and deployed additional resources to maintain a hygienic environment for staff and customers, including the deployment of new technology, such as the Vapourized Hydrogen Peroxide ("VHP") Robot, in disinfecting company premises, stations and trains.

The long-term financial sustainability of the Company is continuously monitored by the Executive Committee and the Board. The impact of the Public Order Events in 2019 and the prolonged COVID-19 pandemic have caused short-term financial impacts on the Company's businesses, as previously disclosed. To mitigate the impacts, cost control initiatives, include service adjustments, a recruitment freeze as well as a reduction in discretionary spending, have been put in place. Further, the Company continues to maintain low gearing, even under the current difficult situation. Overall, the financial position of the Company remains sound. The Company has also started implementing transformation initiatives with a view to further improving the Company's profitability in the longer term and ensuring long-term financial sustainability.

Key focus areas for risk management of the Company include:

Effective and Balanced Relationship with Key Stakeholders	
Key Challenges	• Challenging political landscape and diverse stakeholders' expectations • Uphold trust and public confidence in light of the earlier Shatin to Central Link incident, the Public Order Events and operational incidents
Key Controls	• Implement tailored engagement plans for different stakeholders to maintain effective communication and understanding • Observe the Company's operating obligations and maintain good performance of the Company
People and Operations Safety	
Key Challenges	• Health threat to the workforce, loss of productivity and potential impact on normal operations arising from the COVID-19 pandemic • More challenging employee relations environment due to more diverse and polarised views • Safety and security threats associated with potential further Public Order Events
Key Controls	• Enhanced cleaning and sterilisation at workplaces, including offices, depots, stations and trains, provision of face masks and personal protective equipment for staff, special work arrangements such as fixed team, split team and work-from-home arrangements • Robust tracking and management protocol for confirmed or close-contact cases in the workforce • Implementation of business continuity arrangements • Proactive employee engagement through various communication channels including virtual meetings and close communication with staff bodies • Enhanced security arrangements • Review of asset and design standards
New Projects Quality, Delivery and Cost	
Key Challenges	• Adherence to programme, cost and quality of projects
Key Controls	• Periodic audits and assurance to ensure compliance with processes and procedures • Monitoring project quality and progress against Key Performance Indicators • Familiarization of staff with the processes and procedures relevant to their work and encouraging lessons learned to be shared • Adoption of technology to strengthen supervision and record keeping • Stringent control of contingency funds
New Business Model/Technological Disruption/Competition	
Key Challenges	• Current business model disrupted by new technology • Manage competition from other transport modes
Key Controls	• Invest in technology and digital solutions to strengthen business model • Monitor competition from other transport modes and implement initiatives to maintain market share
Delivery of Growth Strategy	
Key Challenges	• Challenging business model for future new lines in Hong Kong • Keen competition for business opportunities outside Hong Kong • Business performance below the bid models and assumptions • Heightened geopolitical risk
Key Controls	• Formulate innovative business models for new lines in Hong Kong • Maximise branding effect of the Company and stakeholder engagement • Diversify the Company's businesses in locations outside Hong Kong and conduct regular environmental scan for new business opportunities • Formulate and implement business plans for underperforming businesses for improvement and monitoring
Security Threat (Cyber/Physical)	
Key Challenges	• Threat of cyber-attack on Operations and IT systems • Threats associated with Public Order Events • Terrorist attack threat, in particular for railway operations of the Company outside Hong Kong
Key Controls	• Enhanced IT network resilience to protect the Company against cyber attacks • Implementation of cyber security protection systems for IT and railway operations systems • Enhanced security measures • Enhanced corporate security governance framework

Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal and Governance Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ended 31 December 2020 to the Executive Committee, which confirmed the review results, on 11 February 2021, and to the Risk Committee on 26 February 2021.

For the year ended 31 December 2020, the Risk Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's ERM system and considers that it is overall effective and adequate, based on a number of review areas.

Factors considered during the review

- Review areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of subsidiaries/associates
- Risk management of subsidiaries and associates
- Benchmarking/roundtable/peer group ideas exchange
- Risk management training and promotion held in 2020

Conclusion

The ERM system was considered overall effective and adequate for the year ended 31 December 2020.

CONTINUOUS PROCESS IMPROVEMENT

Key initiatives undertaken in relation to the ERM system in 2020 include the following:

- The ERM Team continued to produce ERM Newsletters for dissemination to all staff focusing on topical issues in risk management, aiming to raise risk awareness and share good risk management practices.
- A series of 3 bite-sized animated videos, which form a story to promote risk management principles and application, has also been developed. The last of the three videos was launched in March 2020. The fun and innovative approach has received a good response with the series receiving over 6,000 views by staff.
- In November 2020, a Risk Awareness Webinar adopting the theme "Forward Looking Risk Management" was held covering topics such as the use of contactless technology for new travel norms and futuristic thinking tools. The Webinar was attended by about 150 senior managers and was well received.
- Acting through the Risk Committee and the Audit Committee, the Board has mandated a review of the Company's internal control and risk management systems for Hong Kong operations. Following the first phase review conducted in 2019, an external consultant, Arthur D Little, was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence framework, with a view to identifying any gaps in the framework and making recommendations for improvement. The results of this assessment were presented to and endorsed by the Risk Committee and the Audit Committee in late 2020. The next phase of the project will be to strengthen the Company's Second Line of Defence (in particular) in certain key risk areas through the establishment of new technical and engineering Centres of Excellence and the adoption of a new assurance framework. A further update on progress will be presented to the Risk Committee and the Audit Committee in mid-2021.

We keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing, including through participation in the UK ERM Roundtable and the HK ERM Roundtable meetings.

RISK COMMITTEE REPORT

As at the date of this Report, the Risk Committee of the Company (referred to as the "Committee" in this report) consists of seven non-executive Directors, five of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2020 are set out on pages 112 to 113 of this Annual Report.

The Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's Enterprise Risk Management ("ERM") system and considers that it is overall effective and adequate.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the respective websites of the Company (www.mtr.com.hk) and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee include reviewing the Company's ERM framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company's top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company's risk profile; conducting "deep dive" reviews on selected key risk areas; reviewing the effectiveness of the ERM function; and reviewing the Company's crisis management arrangements.

The Committee assists the Board in overseeing the Company's ERM system on an ongoing basis. The Committee reviews the effectiveness of the Company's ERM system annually, and reports to the Board in relation to such review. More details of the features of the ERM system and processes, the significant areas of risk being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section on pages 126 to 129 of this Annual Report. Each year, the Committee agrees on a list of reviews and presentations in respect of selected key risk areas to be considered for that year, taking into account the ongoing activities of the Company at the material time; and invites relevant management to present on the subjects and conduct interactive discussions. The list of matters to be considered is updated as required to include any topical subjects or risks that may emerge during the year. The Committee provides observations and, where applicable, recommendations to management, based on their reviews and discussions.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, making reference to the list of reviews and presentations determined by the Committee, as well as topical matters at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

A total of four meetings have been scheduled to be held on a quarterly basis in 2021.

WORK PERFORMED BY THE COMMITTEE IN 2020

In 2020, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM quarterly reports and the effectiveness of the Company's ERM system for the year ended 31 December 2019. A review of the Company's ERM annual report and ERM system effectiveness for the year ended 31 December 2020 was conducted by the Committee on 26 February 2021.

The Committee reviewed the Company's risk profile, top risks and key emerging risks at each of its meetings. At its first meeting, the Committee agreed on a list of "deep dive" reviews and presentations on selected key risk areas for the year (as adjusted during the course of year), which reviews and presentations took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the "deep dive" reviews to the Committee, with comments and recommendations provided by the Committee for appropriate action by management.

Acting through the Committee and the Audit Committee, the Board has mandated a review of the Company's internal control and risk management systems for Hong Kong operations. Following the first phase review conducted in 2019, an external consultant, Arthur D Little, was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence framework, with a view to identifying any gaps in the framework and making recommendations for improvement. The results of this assessment were presented to and endorsed by the Committee and Audit Committee in late 2020. The next phase of the project will be to strengthen the Company's Second Line of Defence (in particular) in certain key risk areas through the establishment of new technical and engineering Centres of Excellence and the adoption of a new assurance framework. A further update on progress will be presented to the Committee and the Audit Committee in mid-2021.

The Legal and Governance Director, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2020 to report and answer questions on ERM related matters.

The Committee considered the following key matters in 2020:

- Impact of Public Order Events on fare business, human resources, station operations and asset management and maintenance
- Special work arrangements for protection against COVID-19 infection
- Medium to long term impact of COVID-19 and associated risk scenarios
- Management Review Report on the High Speed Rail trespassing incident which occurred on 9 December 2019
- Management of Derailment Risks
- Cyber security management of signalling systems
- Near Capacity Operations on the East Rail Line in light of Mixed Fleet Operations
- RDS-2014 projects
- Readiness and preparation for Hangzhou Line 5 full line opening
- Interim update on Three Lines of Defence review
- Insurance summary update
- Notable cyber security incidents summary overviews
- Major global rail accidents summary overviews

Andrew Brandler
Risk Committee Chairman
Hong Kong, 11 March 2021

The Risk Committee Report has been reviewed and endorsed by the Committee.

CAPITAL WORKS COMMITTEE REPORT

As at the date of this Report, the Capital Works Committee of the Company (referred to as the "Committee" in this report) consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company ("INEDs"). Mr Cheng Yan-kee succeeded Dr Allan Wong Chi-yun as the Committee Chairman on 20 May 2020. Details of the Committee's members and their attendance records during 2020 are set out on pages 112 to 113 of this Annual Report.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the website of the Company (www.mtr.com.hk).

The principal duties of the Committee include overseeing any capital project of the Company in Hong Kong and outside of Hong Kong involving design and/or construction activities ("Relevant Project") with a capital value in excess of HK$10 billion and any other Relevant Project, in the event that such Relevant Project is four months or more behind programme on an overall basis; reviewing the progress of such projects, from both a programme and cost perspective; reviewing matters that could have a material impact on the quality, delivery and management of such projects, including processes and protocols adopted by the Company in supervising and managing the projects and non-compliances in relation to materials, works and processes; checking that there are adequate resources for such projects; keeping under review the Company's communication strategy and protocols, and crisis management plans in respect of such projects; and reporting to the Board on a quarterly basis or ad hoc basis if the Committee deems appropriate, in respect of the above.

Agendas for each meeting were drawn up taking into account topical matters relating to the projects at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom in a report to the Board after each Committee meeting.

WORK PERFORMED BY THE COMMITTEE IN 2020

In 2020, we saw the conclusion of the Commission of Inquiry ("CoI") hearing on Hung Hom Station, and the subsequent issue of their final Report. The observations therein and the follow up actions necessarily dominated the Committee's agenda in the first half of 2020. During the year, consultant selection exercises carried out for the Tung Chung Line Extension and the Tuen Mun South Extension, and the major signalling issues also merited the Committee's attention. The Committee held four meetings at which the following key matters were reviewed and considered:

- reports on the progress and cost status of the Company's capital projects under construction including the Express Rail Link, Shatin to Central Link, the Signalling Replacement Works on the urban lines
- special reports on the CoI and the Suitable Measures at Hung Hom Station and follow up action
- planning work for the Tung Chung Line Extension, and Tuen Mun South Extension
- progress of the Building Excellence programme dealing with on-going project transformation initiatives to enhance the Company's capability in railway capital project management
- half-yearly reports on the construction programme and cost status of all the awarded development projects of the Company's Property Division in Hong Kong
- half-yearly reports on projects-related audits conducted by the Company's Internal Audit Department

Projects Director, Engineering Director, Divisional General Manager – New Projects and General Manager – Procurement & Contracts attended all four Committee meetings in 2020 to report and answer questions on progress of projects and cost related matters. Executives and senior managers were also invited to attend Committee meetings when required. I thank Committee members and colleagues for their support and hard work.

Mr Cheng Yan-kee
Capital Works Committee Chairman
Hong Kong, 11 March 2021

The Capital Works Committee Report has been reviewed and endorsed by the Committee.

REMUNERATION COMMITTEE REPORT

INTRODUCTION

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the Non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's Core Incentive Scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the Non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven Non-executive Directors, four of whom are independent Non-executive Directors. The Chairman of the Remuneration Committee is an independent Non-executive Director. As necessary and with the agreement of the Chairman of the Remuneration Committee, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

The principal responsibilities of the Remuneration Committee include:

- Formulating a remuneration policy and practices that facilitate the employment of top quality personnel;
- Recommending to the Board the remuneration of the Non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

The Committee's responsibilities are set out in its Terms of Reference and are consistent with the Code.

This Remuneration Committee Report has been reviewed and authorised by the Remuneration Committee of the Company.

REMUNERATION POLICY

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and the desired mix of fixed and performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are Non-executive Directors. The remuneration of Non-executive Directors is in the form of annual director's fees.

To ensure that Non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the Non-executive Directors; and
- Employment conditions elsewhere in the Company.

Details of the remuneration for Non-executive Directors are set out in note 11 to the accounts. The current Non-executive Director remuneration framework, in effect since 1 January 2017, is set out below:

	(HK$)
Board	
– Chairman	1,500,000
– Other Members	300,000
Audit Committee and Capital Works Committee	
– Chairman	150,000
– Other Members	90,000
Risk Committee, Remuneration Committee, Nominations Committee, and Corporate Responsibility Committee	
– Chairman	110,000
– Other Members	60,000

REMUNERATION FOR EMPLOYEES

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- variable incentives – discretionary or performance-based payment and other business-specific cash incentive plans;
- long-term incentives – e.g. restricted shares and performance shares; and
- retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and the individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and management of the Company are eligible to receive an annual performance-based cash incentive under the Company's Core Incentive Scheme ("CIS"), the terms and rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the overall CIS funding is subject to the Company's performance which is measured by both financial and non-financial factors including:

Financial Factors

- Operating profit;
- EBITDA margin; and
- Hong Kong property development profits.

Non-financial Factors

- Results from Customer satisfaction surveys;
- Fulfillment of the Customer Service Pledges; and
- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

CIS funding will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges. The final payout will then be adjusted based on the performance of individual employees.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance against the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the funding under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Performance for the Chief Executive Officer is assessed by the Chairman, and the individual performance ratings for other Members of the Executive Directorate are determined by the Chief Executive Officer.

Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 25-35% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2020, discretionary awards were provided to non-managerial staff with competent or above performance, as a recognition of their contribution to the Company's performance and achievements in the past year and to motivate staff to strive for continuous business growth. In addition, a one-off special discretionary award was granted to all staff except for key corporate management in 2020 as a token of appreciation for their hard work to keep Hong Kong moving in the past year, in spite of the challenges arising from the pandemic.

Long-Term Incentives

During 2020, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme").

(i) 2007 Share Option Scheme

The 2007 Share Option Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007 and terminated on 6 June 2014. Under the terms of the 2007 Scheme, no new grant of options could be made after 5:00 p.m. on 6 June 2014. The Scheme includes a provision which specifies that options cannot be exercised under the Scheme unless the Company has satisfied each of the three Key Performance Requirements included in the Operating Agreement in order for any options to be exercised.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2020 under the 2007 Scheme are set out under the paragraph "Directors' Interests in Shares and Underlying Shares of the Company" of the Report of the Members of the Board.

Details of the 2007 Scheme and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 11 and 41 to the accounts.

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Share Option Scheme on 6 June 2014. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the Executive Share Incentive Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2020. Award holders are entitled to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee and vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed with reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

Details of the Executive Share Incentive Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme are set out in notes 11 and 41 to the accounts.

Retirement Schemes

In Hong Kong, the Company operates four retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", with details as follows:

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

The Members of the Executive Directorate who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other Members of the Executive Directorate are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Dr. Jacob Kam, the Company's Chief Executive Officer effective from 1 April 2019, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, Macau, the Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPFSO and, in the case of subsidiaries in Macau, the Mainland of China and overseas, their respective local laws and regulations.

WORK PERFORMED BY THE REMUNERATION COMMITTEE DURING THE YEAR

- Approved the 2019 Remuneration Committee Report as incorporated in the 2019 Annual Report;
- reviewed and approved payouts under the Company's performance-based CIS for the 2019 performance period;
- reviewed and approved restricted share and/or performance share awards for eligible employees under the Executive Share Incentive Scheme;
- conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2020;
- conducted review on the remuneration packages for Members of the Executive Directorate, as appropriate; and
- approved refinements of the CIS to take effect in 2021 and endorsed the performance metrics which determine the vesting of Performance Shares covering the performance period of 2021-2023 under the Executive Share Incentive Scheme.

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 11 to the accounts.

in HK$ million	2020	2019
Fees	**9.3**	10.0
Base salaries, allowances and other benefits-in-kind	**54.2**	55.1
Variable remuneration related to performance	**3.5**	8.1
Retirement scheme contributions	**6.6**	6.2
Total	**73.6**	79.4

Please refer to note 11 to the accounts for information relating to the five highest paid employees of the Company for the year ended 31 December 2020.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairperson
Hong Kong, 22 February 2021

BOARD AND EXECUTIVE DIRECTORATE

Full biographies of Members of the Board and the Executive Directorate are available on the Company's website (www.mtr.com.hk).

MEMBERS OF THE BOARD

Dr Rex Auyeung Pak-kuen*

Age 68

Chairman since 1 July 2019
NED since 7 March 2019
Corporate Responsibility Committee *(Chairman)*
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Dr Auyeung is an independent non-executive director of China Construction Bank (Asia) Corporation Limited and C-MER Eye Care Holdings Limited.

Dr Auyeung has over 40 years of experience in the insurance industry in Canada and Hong Kong. Before his retirement in June 2017, Dr Auyeung was Chairman – Asia of the Principal Financial Group Inc. ("PFG"), a Fortune 500 company, responsible for PFG's overall businesses in Asia.

Dr Auyeung also actively serves the public sector and is currently an observer of the Independent Police Complaints Council Observers Scheme, and a member of the Board of Directors of the Investor and Financial Education Council under the Securities and Futures Commission. In addition, he is a board member of Bo Charity Foundation (Food Angel) and a convenor of the Advisory Committee of the Jockey Club Community eHealth Care Project.

Dr Auyeung was previously an independent non-executive director of HSBC Provident Fund Trustee (Hong Kong) Limited, Standard Life (Asia) Limited and Sompo Insurance China Co. , Ltd. , the chairman of Hong Kong Strategy for Financial Literacy Sub-committee on Stakeholder Coordination and Collaboration, a member of the Independent Review Committee on Hong Kong's Franchised Bus Service, the chairman of the Council of Lingnan University and the Senior Strategy and Business Advisor at Athenex Inc. , a company listed on NASDAQ in the United States of America.

Dr Jacob Kam Chak-pui*

Age 59

Chief Executive Officer ("CEO")
since 1 April 2019
Corporate Responsibility Committee *(Member)*

Dr Kam joined the Company in 1995 and had held various management positions in the Operations, Projects and Mainland China and International Business Divisions.

As the CEO, Dr Kam is responsible for all performance of the Company and its group companies, both in and outside Hong Kong.

Dr Kam is the chairman of the Regional and Suburban Railways Division of the International Association of Public Transport (UITP), a member of the Hong Kong Quality Assurance Agency Governing Council, a member of the board of directors of The Community Chest of Hong Kong, a member of the General Committee of The Hong Kong General Chamber of Commerce, and a council member of The Hong Kong Management Association.

Dr Kam qualified as a Chartered Engineer in the United Kingdom in 1989.

Andrew Clifford Winawer Brandler

Age 64

INED since 17 May 2017
Risk Committee *(Chairman)*
Audit Committee *(Member)*

Mr Brandler is the chairman of Sir Elly Kadoorie & Sons Limited. He was formerly the group managing director and chief executive officer of CLP Holdings Limited from 2000 to 2013, an executive director between October

2013 and April 2014, and currently is a non-executive director of that company. Mr Brandler is also the non-executive deputy chairman of The Hongkong and Shanghai Hotels, Limited, and a non-executive director of Tai Ping Carpets International Limited. He is also currently the Chairman of the Board of Governors of the Chinese International School.

Prior to joining CLP Holdings Limited in 2000, Mr Brandler was an investment banker, his last position being Head of Asia Pacific Corporate Finance at Schroders based in Hong Kong. He is the former chairman of The Hong Kong General Chamber of Commerce and a member of the Operations Review Committee of the Independent Commission Against Corruption.

Mr Brandler is a member of The Institute of Chartered Accountants in England and Wales.

Dr Bunny Chan Chung-bun

Age 63

INED since 20 May 2020
Corporate Responsibility Committee *(Member)*

Dr Chan has over 30 years of experience in the garment industry and is the founder and chairman of Prospectful Holdings Limited. He is an independent non-executive director of Li Ning Company Limited, Great Harvest Maeta Group Holdings Limited, Speedy Global Holdings Limited and Glorious Sun Enterprises Limited. Dr Chan is currently a member of the Hong Kong delegation to the National People's Congress of the People's Republic of China. He is also the chairman and a founding member of the Hong Kong Army Cadets Association, the President of the Kowloon Federation of Associations, a member of the Court of The Open University of Hong Kong, and an advisor to Our Hong Kong Foundation.

Dr Chan was appointed to the Commission on Youth in 2004 and was the chairman from 2009 to 2015. He set up the Hong Kong Association of Youth Development in 2007 and was the former chairman of the Kwun Tong District Council and the vice-chairperson of the Community Care Fund Task Force of the Commission on Poverty. Dr Chan also served on the Financial Reporting Council, the Social Welfare Advisory Committee, the Personal Data (Privacy) Advisory Committee, and the Council for Sustainable Development.

Walter Chan Kar-lok

Age 67

INED since 22 May 2019
Nominations Committee *(Member)*
Corporate Responsibility Committee *(Member)*

Mr Chan has been a practising lawyer for over 39 years and is currently a consultant of Messrs. So, Lung & Associates, Solicitors and Messrs. Rowland Chow, Chan & Co. , Solicitors. He is also a China Appointed Attesting Officer. Mr Chan currently is the chairman of The Hong Kong Housing Society, a convenor-cum-member of the Pensions Appeal Panel under the Civil Service Bureau, and a member of the Advisory Committee on Post-service Employment of Civil Servants.

Mr Chan was formerly the chairman of Appeal Tribunal (Buildings), a non-executive director of the Urban Renewal Authority, and a member of the Housing Authority, the Town Planning Board, the Harbourfront Commission and the Board of Advisors of Radio Television Hong Kong.

Dr Pamela Chan Wong Shui

Age 74

INED since 4 July 2013
Nominations Committee *(Chairman)*
Corporate Responsibility Committee *(Member)*

Dr Chan is chairman of The Insurance Complaints Bureau, vice-chairman of The Boys' and Girls' Clubs Association of Hong Kong, an independent director of the Travel Industry Council of Hong Kong, a member of the Judicial Officers Recommendation Commission, chairman of the Advisory Committee of the Department of Social Behavioural Sciences of City University of Hong Kong and a member of the board of The Community Chest of Hong Kong. She is also patron of Consumers International.

Dr Chan was chief executive of the Consumer Council, chairman of the Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council and the Court, chairman of the governing committee of Princess Margaret Hospital, and a member of the Law Reform Commission of Hong Kong, Hospital Authority, The Hong Kong Housing Authority, Estate Agents Authority and the Private Columbaria Appeal Board.

Dr Dorothy Chan Yuen Tak-fai*

Age 71

INED since 4 July 2013
Remuneration Committee *(Chairman)*
Capital Works Committee *(Member)*

Dr Chan is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics & Transport and advisor of the International College of the HKU School of Professional and Continuing Education, and a council member of HKU SPACE Po Leung Kuk Stanley Ho Community College. She is an independent non-executive director of AMS Public Transport Holdings Limited, the chairperson of the Sustainable Agricultural Development Fund Advisory Committee, a director of TWGHs E-Co Village Limited, a Strategy Advisor to the Serco Group (HK) Limited, a member of the Board of Governors of the Hong Kong Institute for Public Administration, and the Honorary Fellow of the Chartered Institute of Logistics and Transport ("CILT").

Dr Chan was a board member of the Logistics and Supply Chain MultiTech R&D Centre Limited, a member of the Social Welfare Advisory Committee and the Advisory Council on Environment of the HKSAR Government, and the International President, the Global Chairperson and a Global Advisor for Women in Logistics and Transport in CILT. She was previously the Deputy Commissioner for Transport of Government from 1995 to 2002. From 2000 to 2002, Dr Chan was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company.

Cheng Yan-kee*

Age 66

INED since 22 May 2019
Capital Works Committee *(Chairman)*
Remuneration Committee *(Member)*

Mr Cheng is a practising civil and structural engineer, and an Authorised Person and a Registered Structural Engineer under the Buildings Ordinance. He is also a Class 1 Registered Structural Engineer in the People's Republic of China.

Mr Cheng currently is a director of H. K. Cheng & Partners Limited and is a member of the Advisory Committee on Post-service Employment of Civil Servants.

Mr Cheng formerly was an independent non-executive director of K. H. Group Holdings Limited, President of the Institution of Structural Engineers, and Chairman of both the Council of the Hong Kong Baptist University and the Corruption Prevention Advisory Committee under the Independent Commission Against Corruption. He was also a member of the Hospital Authority, Town Planning Board and Hong Kong Housing Authority.

Dr Anthony Chow Wing-kin

Age 70

INED since 18 May 2016
Capital Works Committee *(Member)*
Remuneration Committee *(Member)*

Dr Chow is a solicitor admitted to practise in Hong Kong and England and Wales. He has been a practising solicitor in Hong Kong for over 34 years and is currently the Senior Consultant and Global Chairman of the law firm Messrs. Guantao & Chow Solicitors and Notaries. Dr Chow is a China Appointed Attesting Officer and an arbitrator of the South China International Economic and Trade Arbitration Commission/Shenzhen Court of International Arbitration. He is currently the deputy chairman of the Council of The Hong Kong Academy for Performing Arts, a non-executive director of Kingmaker Footwear Holdings Limited, an independent non-executive director of S. F. Holding Co., Ltd. and Ping An Healthcare and Technology Company Limited, and an independent director of OneConnect Financial Technology Co., Ltd.

Dr Chow was previously a non-executive director of China City Construction Group Holdings Limited, an independent non-executive director of Fountain Set (Holdings) Limited and the president of The Law Society of Hong Kong. He is the former chairman of the Process Review Panel for the Securities and Futures Commission of Hong Kong and the board of stewards of The Hong Kong Jockey Club.

Dr Eddy Fong Ching[*^]

Age 74

INED since 13 January 2015
Audit Committee *(Chairman)*
Nominations Committee *(Member)*

Dr Fong is currently an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited.

Dr Fong was the non-executive chairman of the Securities and Futures Commission from 2006 to 2012 and the past chairman of both the Council of The Open University of Hong Kong and the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries. His other past public duties include director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited; a member of The Hong Kong Housing Authority and the Greater Pearl River Delta Business Council; and a council member of The Hong Kong Academy for Performing Arts. Dr Fong was also a senior audit partner with PricewaterhouseCoopers specialising in capital markets work in Hong Kong and the Mainland of China until his retirement in 2003.

Dr Fong is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

James Kwan Yuk-choi#

Age 69

INED since 14 October 2014
Capital Works Committee *(Member)*
Risk Committee *(Member)*

Mr Kwan is currently an independent non-executive director of Towngas China Company Limited.

Mr Kwan was previously a senior adviser, an executive director and the chief operating officer of The Hong Kong and China Gas Company Limited, and a director of Shenzhen Gas Corporation Limited. He was also the President of The Institution of Gas Engineers (currently known as The Institution of Gas Engineers & Managers) ("IGEM") in the United Kingdom in 2000/2001 and The Hong Kong Institution of Engineers ("HKIE") in 2004/2005. Mr Kwan is a former member of the Construction Industry Council, the Transport Advisory Committee, the Vocational Training Council, and the Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government.

Mr Kwan is a Chartered Engineer.

Rose Lee Wai-mun^

Age 68

INED since 16 May 2018
Audit Committee *(Member)*
Risk Committee *(Member)*

Ms Lee is an Independent Non-Executive Director of CK Hutchison Holdings Limited and Swire Pacific Limited. Ms Lee is also a member of the Election Committee of the 13th National People's Representative Meeting, a Board Member of the West Kowloon Cultural District Authority, and Vice Patron of the Community Chest of Hong Kong. Ms Lee is a Fellow of The Hong Kong Institute of Bankers.

She was previously Vice-Chairman and Chief Executive of Hang Seng Bank Limited, Group General Manager of HSBC Holdings plc, Director of The Hongkong and Shanghai Banking Corporation Limited and Chairman of the Board of Governors of Hang Seng University. In addition, she was previously Vice President of The Hong Kong Institute of Bankers, Board Member and Deputy Chairman of the Executive Committee of The Community Chest of Hong Kong, and a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council.

Lucia Li Li Ka-lai#

Age 66

INED since 14 October 2014
Audit Committee *(Member)*
Nominations Committee *(Member)*

Mrs Li is a retired civil servant. She was Director of Accounting Services of the HKSAR Government from October 2003 to January 2009. Mrs Li was formerly a member of the Public Service Commission, a member of the Communications Authority, a board member and treasurer of Chung Ying Theatre Company (HK) Limited, and a member of a task force formed by the Commissioner for Innovation and Technology to follow up on the Director of Audit's Report No. 61 with regard to the Small Entrepreneur Research Assistance Programme.

Mrs Li is a Fellow member of the Hong Kong Institute of Certified Public Accountants.

Jimmy Ng Wing-ka

Age 51

INED since 22 May 2019
Capital Works Committee *(Member)*
Corporate Responsibility Committee *(Member)*

Mr Ng is a solicitor admitted to practise in Hong Kong and currently is a partner of Messrs. Tung, Ng, Tse & Lam, Solicitors. He is a Legislative Council member representing the Industrial (Second) Functional Constituency. Mr Ng is an independent non-executive director of Yanchang Petroleum International Limited and Glorious Sun Enterprises Limited. He is the chairman of the Hong Kong – Taiwan Business Co-operation Committee and the HKSAR Passports Appeal Board, a vice-chairman of the Independent Police Complaints Council, a director of Hong Kong Science and Technology Parks Corporation, and a member of the Court of The University of Hong Kong, the Council of The Hong Kong Polytechnic University, the Competition Commission and the Chinese People's Political Consultative Conference of Chongqing City, the People's Republic of China.

Mr Ng was formerly an independent non-executive director of China Weaving Materials Holdings Limited and a member of the Small and Medium Enterprises Committee of the Trade and Industry Department.

Benjamin Tang Kwok-bun^

Age 69

INED since 14 October 2014
Remuneration Committee *(Member)*
Risk Committee *(Member)*

Mr Tang is Chairman of the Operations Review Committee and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, and a member of the Communications Authority and Chairman of its Broadcast Complaints Committee. He is also an independent non-executive director of BE Reinsurance Limited and United Builders Insurance Company, Limited.

Mr Tang joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, he served as the Government Printer and the Commissioner of Insurance. Mr Tang was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003 until he retired in July 2012. He was appointed a Commissioner of the Commission of Inquiry Into the Collision of Vessels Near Lamma Island in 2012, and the Commission's report was presented to the Chief Executive in April 2013.

Johannes Zhou Yuan

Age 65

INED since 17 May 2017
Audit Committee *(Member)*
Risk Committee *(Member)*

Mr Zhou is an independent director of Citibank (China) Co. , Ltd.

Mr Zhou retired in June 2016 as Chief Strategic Officer of China Investment Corporation ("CIC"). He joined CIC in 2008 and held a variety of portfolios of responsibilities including alternative assets, direct investments, asset allocation and finance/treasury. Prior to that, Mr Zhou led Asia business development at Chicago Mercantile Exchange. From 2001 to 2005, he worked as a financial researcher and consultant, working on assignments ranging in asset management, private equity, hedge funds, risk models, financial software architecture, and financial market reform, with consulting work done for the China Securities Regulatory Commission, Shanghai Futures Exchange and a number of western firms. From 1998 to 2001, Mr Zhou was chief executive officer of HKFE Clearing Corporation Limited and concurrently chief financial officer of Hong Kong Futures Exchange Limited, responsible for the Exchanges's finance, treasury, risk and clearing functions. He was UBS AG's China country head from 1994 to 1998, responsible for the bank's investment banking, commercial banking, asset management and private banking businesses in China. From 1988 to 1994, Mr Zhou worked at State Street Bank in Boston, where he founded and managed the research department. Prior to that, he taught at Brandeis University, United States of America.

Christopher Hui Ching-yu^ (Secretary for Financial Services and the Treasury)

Age 44

NED since 1 June 2020
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Mr Hui sits on the boards of several public bodies, including Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, The Hong Kong Mortgage Corporation Limited and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation and an ex-officio member of the Financial Services Development Council ("FSDC") in his official capacity. He is also, in his official capacity, a director of Hongkong International Theme Parks Limited. In addition, Mr Hui is a member of the Democratic Alliance for the Betterment and Progress of Hong Kong.

Mr Hui was an Administrative Officer in the HKSAR Government from 1999 to 2003 and held different positions in the Economic Development Branch, the Office of the HKSAR Government in Beijing and the Home Affairs Department. After he left the HKSAR Government in 2003, Mr Hui worked in the banking sector before joining Hong Kong Exchanges and Clearing Limited ("HKEx") in 2006. From 2006 to 2018, Mr Hui held various senior positions in the Market Development Division and Listing Division in HKEx and was the Managing Director at the time he left HKEx. He was the Executive Director of FSDC from 2019 to 2020.

Alternate Directors

(i) Joseph Chan Ho-lim *(since 1 June 2020)*
(ii) Alice Lau Yim *(since 1 June 2020)*
(iii) Maurice Loo Kam-wah *(since 10 August 2020)*

Secretary for Transport and Housing@ (Frank Chan Fan)

Age 63

NED since 1 July 2017
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Mr Chan, in his official capacity, acts as the chairman of The Hong Kong Housing Authority and a board member of Airport Authority Hong Kong. He is also a non-executive director of The Hong Kong Mortgage Corporation Limited.

Mr Chan joined the Electrical and Mechanical Services Department as an Assistant Electronics Engineer in August 1982. He was promoted to Chief Electronics Engineer in February 2001 and to Government Electrical and Mechanical Engineer in May 2005. Mr Chan was appointed as the Deputy Director of Electrical and Mechanical Services in January 2009 and was the Director of Electrical and Mechanical Services and the General Manager of the Electrical and Mechanical Services Trading Fund from December 2011 to June 2017.

Mr Chan is an Honorary Fellow of the Institution of Mechanical Engineers, United Kingdom, and a Fellow of The Hong Kong Institution of Engineers.

Alternate Directors

(i) Under Secretary for Transport and Housing
(Dr Raymond So Wai-man since 25 September 2017)

(ii) Permanent Secretary for Transport and Housing (Transport)
(Mable Chan since 1 August 2020)

(iii) Deputy Secretaries for Transport and Housing (Transport)
(Amy Wong Pui-man since 14 December 2020 and Sharon Yip Lee Hang-yee since 15 July 2019)

Permanent Secretary for Development (Works)@ (Lam Sai-hung)

Age 59

NED since 13 October 2018
Capital Works Committee *(Member)*
Risk Committee *(Member)*

Mr Lam joined the Hong Kong Government in August 1986 and was the Director of Civil Engineering and Development from September 2016 to October 2018.

Mr Lam is a Fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers, United Kingdom, and the China Hong Kong Railway Institution.

Alternate Director

Deputy Secretary for Development (Works)2
(Mak Shing-cheung since 5 October 2016)

Commissioner for Transport@ (Rosanna Law Shuk-pui)

Age 53

NED since 9 September 2020
Audit Committee *(Member)*
Risk Committee *(Member)*

Miss Law, in her official capacity as Commissioner for Transport, also serves as a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company Limited, New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited and Route 3 (CPS) Company Limited.

Miss Law joined the Hong Kong Government in 1989 and has served in various policy bureaux and departments, including as Principal Assistant Secretary for the Environment, Transport and Works (Transport) (later renamed to Principal Assistant Secretary for Transport and Housing (Transport)) from March 2007 to August 2009, Deputy Commissioner for Tourism from August 2010 to September 2016, and Deputy Secretary for Constitutional and Mainland Affairs from September 2016 to September 2020.

Alternate Director

Deputy Commissioner for Transport/Transport Services and Management
(Macella Lee Sui-chun since 1 September 2016)

Notes:
* *Also a director of the Company's subsidiary(ies).*
^ *Up for retirement by rotation and eligible for re-election/election at the Company's forthcoming Annual General Meeting ("AGM").*
# *Director who will retire after the conclusion of the Company's forthcoming AGM.*
@ *Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance, who is not required to retire by rotation under the Articles of Association.*
INED : independent non-executive director
NED : non-executive director

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

A composite photograph at the Kai Tak Station.

MEMBERS OF THE EXECUTIVE DIRECTORATE

Dr Jacob Kam Chak-pui*

Age 59

Chief Executive Officer (since 1 April 2019)
Corporate Responsibility Committee *(Member)*

His biography is set out on page 138.

Adi Lau Tin-shing*

Age 61

Managing Director – Operations and Mainland Business (since 1 January 2020)

Mr Lau joined the Company in 1982 and has held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong and the Company's rail business in the Mainland of China.

Mr Lau is responsible for managing and overseeing the Company's railway related operations in Hong Kong and its rail and property businesses in the Mainland of China. He is also responsible for overseeing railway operations standards and ensuring mutual sharing and learning of best practices among all the Company's railway operations globally.

Mr Lau is the president of the China Hong Kong Railway Institution, vice president of the International Association of Public Transport (UITP) Asia-Pacific Committee and the former chairman of the UITP Asia-Pacific Urban Rail Platform.

Mr Lau is a Chartered Engineer, a Corporate Member of the Institution of Civil Engineers in the United Kingdom and a Fellow of The Hong Kong Institution of Engineers.

Roger Francis Bayliss

Age 64

Capital Works Director (since 22 February 2021)

Mr Bayliss joined the Company as Projects Director in March 2019.

Mr Bayliss is responsible for leading the Capital Works Business Unit, overseeing the Company's capital works portfolio covering new railway extensions and operations projects.

Mr Bayliss has over 40 years of experience in project management, implementation and delivery of large scale infrastructure and railway projects in Hong Kong, the Mainland of China and the United Kingdom. Between 1992 and 2004, he worked for the Company and managed the completion of several construction contracts leading to the delivery of the Lantau Airport Railway, the Tseung Kwan O Extension and Ngong Ping 360. In 2004, Mr Bayliss joined BAA plc. (now known as LHR Airports Limited), prior to joining Skanska UK in 2007. Before joining the Company, he was the Senior Vice President Operational Efficiency (responsible for driving operational efficiency and the development of a digital business strategy) at Skanska AB, a company listed in Sweden.

Mr Bayliss is a Fellow of The Hong Kong Institution of Engineers and the Institution of Civil Engineers in the United Kingdom.

Margaret Cheng Wai-ching*

Age 55

Human Resources Director (since 1 June 2016)
Corporate Responsibility Committee *(Member)*

Ms Cheng is responsible for all of the Company's human resources and administration affairs.

Ms Cheng is a seasoned human resources practitioner with rich senior management experience. She took up different human resources roles in Citibank, N. A. between

1993 and 1997, and was with JP Morgan as Vice President, Human Resources between 1997 and 2001. From 2001 to 2013, Ms Cheng was with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and was Head of Human Resources, Hong Kong and Global Business, Asia Pacific when she left HSBC. Before joining the Company, she was Group Head of Human Resources of Hong Kong Exchanges and Clearing Limited.

Ms Cheng is serving as the vice chairman of the Cross-Industry Training Advisory Committee for the Human Resource Management Sector under the Qualifications Framework of Education Bureau of the HKSAR Government; a member of The Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government and the chairman of its Police Sub-Committee; a member of the Labour Advisory Board Committee on Employment Services of Labour Department of the HKSAR Government; and a member of the Panel of Arbitrators appointed under the Labour Relations Ordinance. She is also a member of the Hospital Authority, a council member of The Hong Kong Management Association and the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, and an honorary advisor of the ERB Manpower Developer Award Scheme of the Employees Retraining Board.

Ms Cheng is currently the President and a Fellow Member of the Hong Kong Institute of Human Resource Management.

Linda Choy Siu-min

Age 50

Corporate Affairs Director (since 2 March 2020)
Corporate Responsibility Committee *(Member)*

Ms Choy is responsible for overseeing the Company's stakeholder engagement activities, external communications and corporate responsibility function.

Ms Choy has extensive experience in public affairs and communications, public engagement and journalism. She started her career in 1992 as a reporter for the South China Morning Post ("SCMP") and later joined the HKSAR Government as an Administrative Officer, holding a number of positions in various policy bureaux between 1998 and 2004. Ms Choy rejoined SCMP as its China News Editor in 2004 and was later promoted to News Editor before she took on the position of Director, Government Relations of Hong Kong Disneyland Management Limited ("HKDML") in 2007. In 2008, she left this role and was appointed by the HKSAR Government as the Political Assistant to the Secretary for the Environment until 2012, after which she rejoined HKDML as its Vice President, Communications & Public Affairs, a position which she held from 2013 to January 2020.

Ms Choy is currently the Chairperson of Make-A-Wish Foundation of Hong Kong Limited, a Non-official Member of the Community Involvement Committee on Greening, and a Member of the Board of Advisors of Radio Television Hong Kong, the Public Libraries Advisory Committee, and the Advisory Board of The Hong Kong Red Cross. She was formerly the President of the Hong Kong Association of Amusement Parks and Attractions Limited and the Vice-chairwoman of Lantau Development Alliance Limited.

Herbert Hui Leung-wah*

Age 58

Finance Director (since 2 July 2016)

Mr Hui joined the Company in June 2016.

Mr Hui is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, corporate finance, and the treasury function. He also leads the Company's investor relations as well as materials and stores functions.

Mr Hui has extensive corporate finance and investment banking experience. He began his career at Morgan Stanley Asia Limited in 1988. Mr Hui left in 1990 to pursue a career in corporate finance with Wardley Corporate Finance Limited (later known as Corporate, Investment Banking and Markets Division of The Hongkong and Shanghai Banking Corporation Limited) and was the Chief Operating Officer, Investment Banking, Asia Pacific and Co-Head, Corporate Finance Execution when he left in 2004. He was General Manager – Corporate Finance of the Company from 2004 to 2011, and the Chief Financial Officer of Digital China Holdings Limited from 2011 to 2012. Mr Hui was the Chief Financial Officer of K. Wah International Holdings Limited before re-joining the Company in 2016.

Mr Hui is a Chartered Financial Analyst.

Dr Tony Lee Kar-yun*

Age 60

Operations Director (since 1 January 2020)

Dr Lee joined the Company in 1991 and has held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong.

Dr Lee is responsible for managing the Company's railway related operations in Hong Kong.

Dr Lee is a Chartered Engineer and is a Member of The Hong Kong Institution of Engineers, The Institution of Engineering and Technology and The Hong Kong Institute of Directors. He is also a Member of the Electrical Discipline Advisory Panel of The Hong Kong Institution of Engineers, a Member of the Engineering Discipline Advisory Board of the Hong Kong Institute of Vocational Education, and an Honorary Advisory Board Member of the Theme-based Research Scheme Project on "Safety, Reliability, and Disruption Management of High Speed Rail and Metro Systems" of the City University of Hong Kong.

Gillian Elizabeth Meller*

Age 48

Legal and Governance Director (since 22 February 2021)

Ms Meller joined the Company in August 2004 as Legal Adviser. Prior to her current position, Ms Meller was the Legal Director & Secretary between September 2011 and June 2016, and the Legal and European Business Director between July 2016 and February 2021.

Ms Meller is responsible for overseeing the Company's legal, company secretarial, insurance and risk management functions and a central procurement and supply chain function. She is also responsible for leading the Company's assurance function with the aim of providing a strengthened second line of defence across key risk areas of the Company.

Before joining the Company, Ms Meller was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom.

Ms Meller is a vice chairman of the Legal Committee of The Hong Kong General Chamber of Commerce, and a member of the Standing Committee on Company Law Reform.

Ms Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is the President of The Hong Kong Institute of Chartered Secretaries.

David Tang Chi-fai*

Age 56

Property and International Business Director (since 22 February 2021)

Mr Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business. Prior to his current position, Mr Tang was appointed as the Property Director in October 2011 and the Property and Australian

Business Director in October 2020, and before that he had held various senior management positions in the then Legal and Procurement Division, the China and International Business Division, and the Property Division.

Mr Tang is responsible for all of the property development projects, asset and leasing management of investment properties (including shopping malls and offices), and property management business of the Company in Hong Kong, as well as overseeing the Company's Australian and European businesses. He is also accountable for the business results of the Hong Kong Property and International Business portfolios.

Before joining the Company, Mr Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S. A. He had close to 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc.

Mr Tang is a co-opted member of the Public Private Partnership Projects Committee under the Board of the West Kowloon Cultural District Authority and a former non-executive director of the Urban Renewal Authority of the HKSAR Government. He is also an adjunct professor in the Department of Real Estate and Construction at The University of Hong Kong.

Mr Tang is a Chartered Surveyor.

Jeny Yeung Mei-chun*

Age 56

Commercial Director (since 1 September 2011)

Ms Yeung joined the Company in November 1999. She is responsible for the marketing of the Company's railway services as well as managing and enhancing the MTR Brand. Ms Yeung is also responsible for customer service development and the management of station shops rental, advertising media and other non-fare businesses. In addition, she oversees the Company's business in Macau and is the Chairlady of Ngong Ping 360 Limited. Ms Yeung is currently a Director of Octopus Holdings Limited and two members of its group.

Before joining the Company, Ms Yeung held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

Ms Yeung is a member of the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme, the Advisory Committee on Enhancing Employment of People with Disabilities, the Marketing Management Committee of The Hong Kong Management Association, the Hong Kong Trade Development Council Infrastructure Development Advisory Committee and the Cyberport Advisory Panel of Hong Kong Cyberport Management Company Limited ("Hong Kong Cyberport"), and a non-official member of the Immigration Department Users' Committee. She is also an independent non-executive director of Mox Bank Limited. Ms Yeung was a director of Hong Kong Cyberport and a member of the Hong Kong Tourism Board.

Ms Yeung is a Fellow of The Chartered Institute of Marketing.

* *Also a director of the Company's subsidiary(ies).*

CHANGES IN INFORMATION

Changes in information of Directors during 2020 and up to the date of this Report which are required to be disclosed pursuant to the Listing Rules are set out below:

(i) Changes in Biographical Details

Name	Change(s)	Nature and Effective Date of Change(s)
Dr Rex Auyeung Pak-kuen	The Community Chest of Hong Kong • Member of the Investment Sub-committee	Cessation (22 June 2020)
	HSBC Provident Fund Trustee (Hong Kong) Limited • Independent Non-executive Director	Cessation (14 August 2020)
	C-MER Eye Care Holdings Limited • Independent Non-executive Director	Appointment (6 November 2020)
	Lingnan University • Doctor of Business Administration, *honoris causa*	Conferment (19 November 2020)
Dr Bunny Chan Chung-bun	Council for Sustainable Development (Hong Kong) • Member	Cessation (1 March 2021)
Walter Chan Kar-lok	Radio Television Hong Kong • Member of Board of Advisors	Cessation (1 September 2020)
Dr Pamela Chan Wong Shui	Private Columbaria Appeal Board (Hong Kong) • Member	Cessation (29 September 2020)
Dr Dorothy Chan Yuen Tak-fai	The Chartered Institute of Logistics and Transport • Global Chairperson and Global Advisor for Women in Logistics and Transport	Cessation (1 July 2020)
Dr Anthony Chow Wing-kin	The Hong Kong Academy for Performing Arts • Deputy Chairman of the Council	Appointment (1 January 2020)
	The Hong Kong Jockey Club • Chairman of the board of stewards	Cessation (22 June 2020)
	OneConnect Financial Technology Co., Ltd. • Independent Director	Appointment (1 October 2020)
Dr Eddy Fong Ching	Mox Bank Limited (formerly known as SC Digital Solutions Limited) • Independent Non-executive Director	Cessation (26 July 2020)
	Standard Chartered Bank (China) Limited • Independent Non-executive Director	Cessation (4 November 2020)
Christopher Hui Ching-yu	The Hong Kong Mortgage Corporation Limited • Non-executive Director	Appointment (25 May 2020)
Jimmy Ng Wing-ka	Competition Commission (Hong Kong) • Member	Appointment (1 May 2020)
	The University of Hong Kong • Member of the Court	Appointment (5 June 2020)
	Independent Police Complaints Council (Hong Kong) • Vice-Chairman	Appointment (1 January 2021)
	Trade and Industry Department (Hong Kong) • Member of the Small and Medium Enterprises Committee	Cessation (1 January 2021)

(i) Changes in Biographical Details *(continued)*

Name	Change(s)	Nature and Effective Date of Change(s)
James Henry Lau Jr (Resigned on 1 June 2020)	The Government of the HKSAR • Secretary for Financial Services and the Treasury	Cessation (22 April 2020)
	Kowloon-Canton Railway Corporation • Chairman	Cessation (22 April 2020)
	Hongkong International Theme Parks Limited • Director	Cessation (22 April 2020)
	Mandatory Provident Fund Schemes Authority (Hong Kong) • Director	Cessation (22 April 2020)
	Airport Authority Hong Kong • Board Member	Cessation (22 April 2020)
	West Kowloon Cultural District Authority (Hong Kong) • Board Member	Cessation (22 April 2020)
	Financial Services Development Council (Hong Kong) • Ex-officio Member	Cessation (22 April 2020)
	The Hong Kong Mortgage Corporation Limited • Non-executive Director	Cessation (25 May 2020)
Benjamin Tang Kwok-bun	United Builders Insurance Company, Limited • Independent Non-executive Director	Appointment (13 February 2020)
	Communications Authority (Hong Kong) • Chairman of the Broadcast Complaints Committee	Appointment (8 April 2020)
Dr Jacob Kam Chak-pui	Vocational Training Council in Hong Kong • Council Member	Cessation (1 July 2020)
	The Hong Kong Management Association • Council Member	Appointment (2 July 2020)
Margaret Cheng Wai-ching	Hospital Authority (Hong Kong) • Member	Appointment (1 April 2020)
	Labour and Welfare Bureau (Hong Kong) • Member of Panel of Arbitrators under the Labour Relations Ordinance	Appointment (1 October 2020)
Linda Choy Siu-min	Public Libraries Advisory Committee (Hong Kong) • Member	Appointment (1 May 2020)
	The Hong Kong Red Cross • Member of the Advisory Board	Appointment (1 September 2020)
	Community Involvement Committee on Greening (Hong Kong) • Non-official Member	Appointment (1 March 2021)
Dr Tony Lee Kar-yun	The Hong Kong Institute of Directors • Member	Admission (7 May 2020)
Gillian Elizabeth Meller	The Hong Kong Institute of Chartered Secretaries • President • Vice-president	Appointment (1 January 2020) Cessation (1 January 2020)
David Tang Chi-fai	The University of Hong Kong • Adjunct Professor in the Department of Real Estate and Construction	Appointment (1 June 2020)
	Octopus Holdings Limited and two members of its group • Director and Alternate Director	Cessation (1 March 2021)
Jeny Yeung Mei-chun	Octopus Holdings Limited and two members of its group • Director	Appointment (1 March 2021)

(ii) Changes in Directors' Remuneration

For details of the changes in Directors' remuneration, please refer to pages 215 to 219 of the Annual Report.

KEY CORPORATE MANAGEMENT

Jacob Kam Chak-pui
Chief Executive Officer

Adi Lau Tin-shing
Managing Director – Operations & Mainland Business

Peter Ewen
Engineering Director (up to 21 February 2021)

Capital Works

Roger Bayliss
Capital Works Director (w.e.f. 22 February 2021)

Andrew Mead
Chief Architect (ARBUK)

Thomas Lau Ming-yu
Chief Design Manager

Barry Sum Pang-tuen
Divisional General Manager – New Projects

James Chow So-hung
Divisional General Manager – Projects Construction

Scott Mackenzie
General Manager – Commercial Management (w.e.f. 22 February 2021)

Peter Leung Man-fat
General Manager – Operations Projects

Lawrence Chung Kwok-leung
General Manager – Planning & Civil Engineering

Ken Wong Kin-wai
General Manager – Projects

Henry Young
General Manager – Projects Management Office

Leung Chi-lap
Head of E&M Construction

Wong Sha
Head of E&M Engineering

Clement Ngai Yum-keung
Head of Project Engineering (up to 31 December 2020)

Robin Wong Koon-sang
Head of Technical (w.e.f. 22 February 2021)

Neil Ng Wai-hang
Lead Project Manager – SCL Civil – NSL

Timothy Edmonds
Principal Contracts Administration Manager – HSR

Raymond Au Koon-shan
Principal Contracts Administration Manager – SCL

Chan Chun-sing
Project Manager – Rolling Stock

Walter Lam Wai-tak
Project Manager – SCL Civil – Exhibition Station

Tim Leung Chi-tim
Project Manager – SCL E&M

Terence Law Che-chung
Project Manager – Signalling

Nelson Yeung Kin-wa
Project Manager – TME

Lesly Leung Po-po
Project Manager – TUE

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director

Karen Woo Kit-sum
General Manager – Branding & Marketing

Diane Chiu Man
General Manager – Business Insights & Growth

Annie Leung Ching-man
General Manager – Customer Experience Development

Margaret Chu Fung-kuen
General Manager – Station Retail

Andy Lau Wai-ming
Managing Director of Ngong Ping 360

Corporate Affairs

Linda So Ka-pik
Corporate Affairs Director (up to 15 January 2020)

Linda Choy Siu-min
Corporate Affairs Director (w.e.f. 2 March 2020)

Osbert Kwan Wing-cheung
Deputy General Manager – Media & Corporate Communications

Lam Chan Lam-sang
Deputy General Manager – Projects & Property Communications

Eric Lee Ka-chun
General Manager – Public Affairs

Finance

Herbert Hui Leung-wah
Finance Director

Sammy Jim Kwok-wah
General Manager – Corporate Finance

Dennis Tam Lup-kwan
General Manager – Financial Control

Candy Ng Chui-lok
Head of Investor Relations & Retirement Benefits

David Pang Hoi-hing
Treasurer

Hong Kong Property & International Business

David Tang Chi-fai
Property & International Business Director (w.e.f. 22 February 2021)

Australia

Terry Wong Ping-sau
Deputy Director – Australian Business

Raymond O'Flaherty
Chief Executive Officer – Metro Trains Melbourne

Nigel Holness
Chief Executive Officer – Metro Trains Sydney (up to 19 February 2021)

Daniel Williams
Chief Executive Officer – Metro Trains Sydney (w.e.f. 25 January 2021)

Tommy Lam Choi-fung
Design & Delivery Director – SMC&SW

David Yam Pak-nin
General Manager – Business Development

Europe

Joakim Sundh
Chief Executive Officer – MTR Express (w.e.f. 8 March 2021)

Mark Jensen
Chief Executive Officer – MTR Nordic (up to 28 February 2021)

Henrik Dahlin
Chief Executive Officer – MTR Nordic (w.e.f. 1 March 2021)

Mats Johannesson
Chief Executive Officer – MTR Pendeltågen (w.e.f. 8 March 2021)

Erika Enestad
Chief Executive Officer – MTR Tech / Emtrain

Caroline Astrand
Chief Executive Officer – MTR Tunnelbanan

Steve Murphy
Chief Executive Officer – MTR UK

Richard Schofield
Interim Managing Director – MTR Elizabeth Line (up to 14 March 2021)

Nigel Holness
Managing Director – MTR Elizabeth Line (w.e.f. 15 March 2021)

Hong Kong Property

Angus Lee Chun-ming#
Chief Executive Officer – OHL

Edward Wong Koon-pong
Deputy General Manager – Property Project

Debbie Chan Yuen-ping
General Manager – Investment Property (Team 1)

Kenneth Lung Tze-ho
General Manager – Investment Property (Team 2)

Melissa Pang Mee-yuk
General Manager – Property Development

Kenny Chow Chun-ling
General Manager – Property Management

Wilfred Yeung Sze-wai
General Manager – Property Project

Sharon Liu Chung-gay
General Manager – Town Planning (w.e.f. 1 March 2021)

Human Resources & Administration

Margaret Cheng Wai-ching
Human Resources Director

Albert Man Tat-shing
General Manager – Corporate Security

Doreen Siu Wai-man
General Manager – Human Resources

Denise Ng Kee Wing-man
General Manager – Learning & Human Resources Transformation

Lillian Ng Lok-yee
General Manager – Performance & Reward

Internal Audit

Paul Chow Yuen-ming
Head of Internal Audit

Legal & Governance

Gillian Meller
Legal & Governance Director (w.e.f. 22 February 2021)

Stephen Hamill
Chief Engineer (w.e.f. 22 February 2021)

Brian Downie
Deputy Director – Legal, Procurement & Supply Chain (w.e.f. 22 February 2021)

Roger Lee Chak-man
General Manager – Corporate Safety (w.e.f. 16 February 2021)

Cecilia Cheng Yuet-fong
General Manager – Governance & Risk Management

Linda Li Sau-lin
General Manager – Legal (Property)

Nicholas Zhang Xiaolong
General Manager – Procurement & Supply Chain (w.e.f. 22 February 2021)

Vincent Simon Ho
Head of Corporate Safety (up to 31 December 2020)

Macau & Mainland China Business

Macau

Jeff Chan Yue-chiu
General Manager – Macau Light Rapid Transit

Mainland China

Jeremy Xu Muhan
Deputy Director – Mainland China Business

Paul Wong Kah-ming
Chief of Engineering (Beijing)

Tse Che-ming
Chief of Engineering (Hangzhou)

Ronnie Tong Chai-ming
Deputy General Manager – Operations (Beijing)

George Mui Wai-ming
Deputy General Manager – Operations (Hangzhou) (w.e.f. 1 February 2021)

Justin Man Wing-fai
Deputy General Manager – Operations (Shenzhen)

Charles Lau Kam-keung
Deputy General Manager – Projects (Beijing)

Jia Jun
General Manager – Business Development (Mainland China)

Frank Liu Zhui-ming
General Manager – Hangzhou

Wilson Shao Shing-ming
General Manager – Jing-Jin-Ji

Oscar Ho Ka-wa
General Manager – Mainland China Property

Terry Wong Wing-kin
General Manager – Shenzhen

MTR Academy

Margaret Cheng Wai-ching
President of MTR Academy (Acting)

Operations

Tony Lee Kar-yun
Operations Director

Sammy Wong Kwan-wai
Chief of Operating

Nelson Ng Wai-hung
Chief of Operations Engineering

Gordon Lam Bik-shun
Chief Signal Engineer (Operations)

Joseph Sin Chi-man
Chief Signalling Design Manager

Michael Leung Yu-hing
Deputy General Manager – Technical & Asset Engineering

Chan Hing-keung
Deputy General Manager – Train Services & Systems Engineering

Carmen Li Wai-ching
General Manager – HSR & Intercity

Ronald Cheng Kin-wai
General Manager – Planning & Development (up to 31 December 2020)

Allen Ding Ka-chun
General Manager – Planning & Development (w.e.f. 1 January 2021)

Alex Lau Hing-hon
General Manager – Safety & Quality

Manho John-william
General Manager – Special Duties (up to 31 December 2020)

Weller Chan Kwok-wai
General Manager – Works Management

Ben Lui Gon-yee
Head of Operating – South Region

Cheung Chi-keung
Head of Operating – West Region

Siman Tang
Head of Operations Strategic Business Management

Rick Wong Hoi-wah
Head of P-Way Asset Replacement (w.e.f. 1 January 2021)

Lee Kim-hung
Head of Workshops

Strategy, Innovation & Technology

Jerry Li Zhe
Deputy Director – Strategy, Innovation & Technology

Ted Suen Yiu-tat
Chief Information Officer

Sylvia Ng Yuen-hung
General Manager – Corporate Strategy

Daniel Wong
General Manager – Global Innovation

Raymond Yuen Lap-hang
Transformation Lead – Hong Kong Core Business

Vinnie Chi Man-yan
Transformation Lead – People

Cheris Lee Yuen-ling
Transformation Programme Manager

\# *Mr. Angus Lee is seconded to Octopus Holdings Limited and Octopus Cards Limited to take up the role of Chief Executive Officer.*

REPORT OF THE MEMBERS OF THE BOARD

The Members of the Board have pleasure in submitting their Report and the audited statement of Consolidated Accounts for the financial year ended 31 December 2020.

PRINCIPAL ACTIVITIES OF THE GROUP

The Group is principally engaged in the following core businesses: railway design, construction, operation, maintenance and investment in Hong Kong, Macau, the Mainland of China and a number of overseas cities; project management in relation to railway and property development businesses in Hong Kong and the Mainland of China; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; investment in Octopus Holdings Limited; and provision of railway management, engineering and technology training.

The principal businesses of the Company's principal subsidiaries and associates as at 31 December 2020 are set out in notes 23 and 24 to the Consolidated Accounts.

BUSINESS REVIEW

The Company has always been committed to providing comprehensive reviews of the Group's businesses and performance in its Annual Reports. A summary of the relevant sections in the Company's Annual Report 2020 covering the required disclosures under the Companies Ordinance is set out below for ease of reference.

Required Disclosures	Relevant Sections
(1) A fair review of the Group's businesses and a discussion and an analysis of the Group's performance during the financial year 2020	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 73) • Financial Review (pages 84 to 93)
(2) Particulars of important events affecting the Group that have occurred since the end of the financial year 2020	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 73)
(3) Description of the significant risks and uncertainties facing the Group	• CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 73) • Risk Management (pages 126 to 129) • Financial Risks – note 27B to the Consolidated Accounts (pages 240 to 241)
(4) Outlook for the Group's businesses	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 73)
(5) Details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group	• Corporate Governance Report (pages 98 to 122)
(6) Description of the Group's relationships with its key stakeholders	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Business Review (pages 36 to 73) • Investor Relations (pages 96 to 97) • Corporate Responsibility (pages 74 to 79) • Human Resources (pages 80 to 82) • Sustainability Report 2020 (www.mtr.com.hk)
(7) Description of the Group's environmental policies and performance	• Chairman's Letter (pages 12 to 15) • CEO's Review of Operations and Outlook (pages 16 to 35) • Corporate Responsibility (pages 74 to 79) • Sustainability Report 2020 (www.mtr.com.hk)

DIVIDENDS

The Board has recommended to pay a final dividend of HK$0.98 per share (2019: 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 ("AGM"), the proposed 2020 final dividend, with a scrip dividend option, is expected to be distributed on 20 July 2021 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 4 June 2021.

ACCOUNTS

The financial position of the Group as at 31 December 2020 and the Group's financial performance and cash flows for the year are set out in the Consolidated Accounts on pages 190 to 270.

TEN-YEAR STATISTICS

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 94 to 95.

DIRECTORS

Members of the Board (including Alternate Directors) and the Executive Directorate as at the date of this Report are stated below:

Members of the Board

- Dr Rex Auyeung Pak-kuen (Chairman)
- Dr Jacob Kam Chak-pui (CEO)
- Andrew Clifford Winawer Brandler
- Dr Bunny Chan Chung-bun
- 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
- Johannes Zhou Yuan
- Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury)

  Alternate Directors:
  - Joseph Chan Ho-lim
  - Alice Lau Yim
  - Maurice Loo Kam-wah
- Secretary for Transport and Housing (Frank Chan Fan)

  Alternate Directors:
  - Under Secretary for Transport and Housing (Dr Raymond So Wai-man)
  - Permanent Secretary for Transport and Housing (Transport) (Mable Chan[Note 1])
  - Deputy Secretaries for Transport and Housing (Transport) (Amy Wong Pui-man[Note 2] and Sharon Yip Lee Hang-yee)
- Permanent Secretary for Development (Works) (Lam Sai-hung)

  Alternate Director:
  - Deputy Secretary for Development (Works)2 (Mak Shing-cheung)
- Commissioner for Transport (Rosanna Law Shuk-pui[Note 3])

  Alternate Director:
  - Deputy Commissioner for Transport / Transport Services and Management (Macella Lee Sui-chun)

Notes

1 *Change of holder of the post from Joseph Lai Yee-tak to Mable Chan with effect from 1 August 2020.*

2 *Change of holder of the post from Kevin Choi to Amy Wong Pui-man with effect from 14 December 2020.*

3 *Change of holder of the post from Mable Chan (ceased on 1 August 2020) to Rosanna Law Shuk-pui (appointed on 9 September 2020).*

Members of the Executive Directorate

- Dr Jacob Kam Chak-pui (CEO)
- Adi Lau Tin-shing (Managing Director – Operations and Mainland Business)
- Roger Francis Bayliss (Capital Works Director)
- Margaret Cheng Wai-ching (Human Resources Director)
- Linda Choy Siu-min (Corporate Affairs Director)
- Herbert Hui Leung-wah (Finance Director)
- Dr Tony Lee Kar-yun (Operations Director)
- Gillian Elizabeth Meller (Legal and Governance Director)
- David Tang Chi-fai (Property and International Business Director)
- Jeny Yeung Mei-chun (Commercial Director)

The biographies of each Member of the Board and the Executive Directorate as at the date of this Report are set out on pages 138 to 150.

In addition, resolutions for electing Mr Hui Siu-wai and Mr Adrian Wong Koon-man as new Directors will be proposed at the 2021 AGM. Please refer to the Company's circular containing the Notice of the 2021 AGM sent together with this Report.

Members of the Board, the Alternate Director(s) and Members of the Executive Directorate who were directors/alternate director(s) during the course of 2020 but have since ceased their position with the Company are stated below:

- Dr Allan Wong Chi-yun (retired on 20 May 2020)
- James Henry Lau Jr (resigned on 1 June 2020)
- Andrew Lai Chi-wah (ceased on 25 July 2020)
- Linda So Ka-pik (resigned on 16 January 2020)
- Dr Peter Ronald Ewen (retired on 22 February 2021)

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 184.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for, in respect of Mr James Henry Lau Jr (up to 31 May 2020) and Mr Christopher Hui Ching-yu (since 1 June 2020) (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Mr Frank Chan Fan), Permanent Secretary for Development (Works) (Mr Lam Sai-hung), and Commissioner for Transport (Ms Mable Chan (up to 31 July 2020) and Miss Rosanna Law Shuk-pui (since 9 September 2020)), all of whom were officials of Government, those connected transactions and continuing connected transactions between the Company and Government (and/or its associates) which are described on pages 161 to 182, there was no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiary undertakings was a party and in which a Member of the Board or a Member of the Executive Directorate or an entity connected with him/her had a material interest (whether direct or indirect), which was entered into during the year or subsisted at any time during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2020, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code") were as follows:

Members of the Board/ Alternate Directors/ Members of the Executive Directorate	No. of Ordinary Shares held			No. of share options#	No. of award shares#		Percentage of aggregate interests to total no. of voting shares in issue∆
	Personal interests*	Family interests†	Other interests	Personal interests*	Personal interests*	Total interests	
Dr Jacob Kam Chak-pui	312,837	–	–	–	391,618	704,455	0.01140
Dr Pamela Chan Wong Shui	9,072	1,675 (Note 1)	–	–	–	10,747	0.00017
Cheng Yan-kee	–	2,000 (Note 1)	–	–	–	2,000	0.00003
Rose Lee Wai-mun	3,350	–	–	–	–	3,350	0.00005

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Members of the Board/ Alternate Directors/ Members of the Executive Directorate	No. of Ordinary Shares held			No. of share options#	No. of award shares#		Percentage of aggregate interests to total no. of voting shares in issueΔ
	Personal interests*	Family interests†	Other interests	Personal interests*	Personal interests*	Total interests	
Lucia Li Li Ka-lai	–	1,614 (Note 1)	2,215 (Note 2)	–	–	3,829	0.00006
Alice Lau Yim	1,116	–	–	–	–	1,116	0.00002
Maurice Loo Kam-wah	588	–	–	–	–	588	0.00001
Mak Shing-cheung	558	8,058 (Note 1)	–	–	–	8,616	0.00014
Dr Raymond So Wai-man	–	1,675 (Note 1)	–	–	–	1,675	0.00003
Adi Lau Tin-shing	138,637	–	–	–	105,868	244,505	0.00396
Roger Francis Bayliss	–	–	–	–	60,400	60,400	0.00098
Margaret Cheng Wai-ching	133,371	–	–	–	99,802	233,173	0.00377
Dr Peter Ronald Ewen	99	–	–	–	89,368	89,467	0.00145
Herbert Hui Leung-wah	57,109	2,233 (Note 1)	–	–	93,434	152,776	0.00247
Dr Tony Lee Kar-yun	41,910	–	–	47,500	34,168	123,578	0.00200
Gillian Elizabeth Meller	127,347	–	–	–	91,734	219,081	0.00354
David Tang Chi-fai	211,084	–	–	–	98,885	309,969	0.00501
Jeny Yeung Mei-chun	681,886	–	–	–	99,784	781,670	0.01265

Notes

As at 31 December 2020,

1 *these shares were held by the Director's spouse.*

2 *the 2,215 shares were jointly held by Mrs Lucia Li Li Ka-lai and her spouse.*

\# *Details of the share options and award shares are set out in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme", respectively, on pages 158 to 159*

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

Δ *The Company's total number of voting shares in issue as at 31 December 2020 was 6,180,927,873*

Save as disclosed above and in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme":

A as at 31 December 2020, no Member of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2020, no Member of the Board or the Executive Directorate of the Company nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 31 December 2020 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares held	Percentage of Ordinary Shares to all the voting shares in issueΔ
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,634,173,932	74.98%

Δ *The Company's total number of voting shares in issue as at 31 December 2020 was 6,180,927,873*

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2020, approximately 0.30% of the Ordinary Shares in issue (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

OTHER PERSONS' INTERESTS

Pursuant to section 337 of the SFO, the Company has maintained a register recording the shareholding information provided by persons in response to the Company's requests pursuant to section 329 of the SFO.

Save as disclosed above and in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2020, the Company has not been notified of any other persons who had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

2007 SHARE OPTION SCHEME

Movements in the outstanding share options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme during the year ended 31 December 2020 are set out below:

Members of the Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 3)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2020	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2020	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Adi Lau Tin-shing	30/5/2014	80,000	23/5/2015 – 23/5/2021	26,000	–	–	26,000	28.65	–	42.50
Dr Tony Lee Kar-yun	30/5/2014	71,500	23/5/2015 – 23/5/2021	47,500	–	–	–	28.65	47,500	–
Other eligible employees	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	1,385,500	–	–	1,385,500	31.40	–	42.08
	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	3,450,000	–	14,000	1,136,000	28.65	2,300,000	41.86

Notes

1. *No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.*
2. *Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Share Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Share Option Scheme.*
3. *The share options granted were subject to a vesting schedule in tranches of one-third each per annum starting from the first anniversary of the date of offer of the options (the "Offer Anniversary") and became fully vested on the third Offer Anniversary.*
4. *Pursuant to the terms of the 2007 Share Option Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options.*
5. *Other details of the 2007 Share Option Scheme are set out in notes 11B and 41(i) to the Consolidated Accounts.*

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "2007 Share Option Scheme" above, no equity-linked agreements were entered into during the year ended 31 December 2020 or subsisted at the end of the year.

EXECUTIVE SHARE INCENTIVE SCHEME

The Company adopted the Executive Share Incentive Scheme with effect from 1 January 2015 ("Effective Date") for a term of ten years. Further details on the purposes and operation of the Executive Share Incentive Scheme are set out in the section headed "Long-Term Incentives" under the Remuneration Committee Report (pages 135 to 136) and notes 11C and 41(ii) to the Consolidated Accounts in this Report.

The maximum number of award shares that may at any time be the subject of an outstanding award granted under the Executive Share Incentive Scheme shall not exceed 2.5% of the number of issued Ordinary Shares as at the Effective Date.

The particulars of the award shares granted are as follows:

Members of the Executive Directorate and eligible employees	Date of award	Types of award shares granted (Note 1) Restricted shares (Note 2)	Performance shares (Note 3)	Award shares outstanding as at 1 January 2020	Award shares vested during the year	Award shares lapsed and/or forfeited during the year	Award shares outstanding as at 31 December 2020
Dr Jacob Kam Chak-pui	10/4/2017	22,050	–	7,350	7,350	–	–
	10/4/2018	25,550	50,450	67,484	8,516	–	58,968
	1/4/2019	120,000	–	120,000	–	–	120,000
	8/4/2019	47,400	91,750	139,150	15,800	–	123,350
	8/4/2020	89,300	–	–	–	–	89,300
Adi Lau Tin-shing	10/4/2017	17,700	25,050	5,900	5,900	–	–
	10/4/2018	16,450	50,450	61,417	5,483	–	55,934
	8/4/2019	16,250	–	16,250	5,416	–	10,834
	8/4/2020	39,100	–	–	–	–	39,100
Roger Francis Bayliss	8/4/2019	–	30,150	30,150	–	–	30,150
	8/4/2020	30,250	–	–	–	–	30,250
Margaret Cheng Wai-ching	10/4/2017	16,950	30,400	5,650	5,650	–	–
	10/4/2018	17,600	50,450	62,184	5,866	–	56,318
	8/4/2019	16,550	–	16,550	5,516	–	11,034
	8/4/2020	32,450	–	–	–	–	32,450
Dr Peter Ronald Ewen	10/4/2017	15,050	–	5,018	5,018	–	–
	10/4/2018	12,250	50,450	58,617	4,083	–	54,534
	8/4/2019	12,500	–	12,500	4,166	–	8,334
	8/4/2020	26,500	–	–	–	–	26,500
Herbert Hui Leung-wah	10/4/2017	15,200	30,400	5,068	5,068	–	–
	10/4/2018	14,200	50,450	59,917	4,733	–	55,184
	8/4/2019	13,800	–	13,800	4,600	–	9,200
	8/4/2020	29,050	–	–	–	–	29,050
Dr Tony Lee Kar-yun	10/4/2017	6,800	–	2,268	2,268	–	–
	10/4/2018	7,900	10,500	15,767	2,633	–	13,134
	8/4/2019	8,300	–	8,300	2,766	–	5,534
	8/4/2020	15,500	–	–	–	–	15,500
Gillian Elizabeth Meller	10/4/2017	16,200	–	5,400	5,400	–	–
	10/4/2018	16,050	50,450	61,150	5,350	–	55,800
	8/4/2019	13,400	–	13,400	4,466	–	8,934
	8/4/2020	27,000	–	–	–	–	27,000
David Tang Chi-fai	10/4/2017	17,250	–	5,750	5,750	–	–
	10/4/2018	16,850	50,450	61,684	5,616	–	56,068
	8/4/2019	17,200	–	17,200	5,733	–	11,467
	8/4/2020	31,350	–	–	–	–	31,350
Jeny Yeung Mei-chun	10/4/2017	17,700	–	5,900	5,900	–	–
	10/4/2018	17,350	50,450	62,017	5,783	–	56,234
	8/4/2019	16,350	–	16,350	5,450	–	10,900
	8/4/2020	32,650	–	–	–	–	32,650
Other eligible employees	10/4/2017	2,100,300	26,350	547,682	538,582	9,100	–
	10/4/2018	2,064,750	1,358,800	2,314,805	599,955	139,534	1,575,316
	8/4/2019	1,780,400	122,750	1,835,300	624,783	83,639	1,126,878
	8/4/2020	1,981,600	6,950	–	70,800	51,400	1,866,350

Notes

1 *The award shares to be granted under the Executive Share Incentive Scheme are issued Ordinary Shares.*

2 *Restricted shares are awarded to selective eligible employees and vest over three years in equal tranches (unless otherwise determined by the Remuneration Committee).*

3 *Performance shares are awarded to eligible employees generally on a three-year performance cycle, subject to review and approval by the Remuneration Committee from time to time.*

SHARES ISSUED

	No. of Ordinary Shares issued	Consideration/Value (HK$)
As at 31 December 2019	6,157,948,911	N/A
Shares issued under the 2007 Share Option Scheme (Further details can be found in note 41(i) to the Consolidated Accounts)	2,547,500	77 million (received by the Company)
Scrip shares issued in respect of 2019 final dividend	18,426,649	692 million
Scrip shares issued in respect of 2020 interim dividend	2,004,813	81 million
As at 31 December 2020	6,180,927,873	N/A

Details of the movements in share capital of the Company during the year are set out in note 38 to the Consolidated Accounts.

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 2020. 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 HKSE a total of 2,020,000 Ordinary Shares for a total consideration of approximately HK$86 million during the year ended 31 December 2020 (2019: HK$88 million).

PUBLIC FLOAT

The HKSE granted to the Company, at the time of its listing on the Main Board of the HKSE in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total number of issued shares of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Report as required by the Public Float Waiver.

MAJOR SUPPLIERS AND CUSTOMERS

Information in respect of the Group's major suppliers and major customers for the year ended 31 December 2020 is as follows:

	As a percentage of the Group's total supplies
Total value of supplies (not of a capital nature) attributable to the Group's five largest suppliers	19.94%

	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	38.95%
Total revenue attributable to the Group's largest customer	16.49%

As at 31 December 2020, no Members of the Board or the Executive Directorate or any of their respective close associates or any shareholder including the FSI, the substantial shareholder of the Company (which, to the knowledge of the Members of the Board or the Executive Directorate, owned more than 5% of all the Company's voting shares in issue), had any beneficial interests in the Group's five largest customers.

DONATIONS

During the year, the Group donated and sponsored approximately HK$15.4 million (2019: approximately HK$12.7 million) to charitable and other organisations.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2020 amounted to HK$50,340 million (2019: HK$39,456 million). Particulars of the borrowings are set out in note 32 to the Consolidated Accounts.

BONDS AND NOTES ISSUED

The Group issued notes with total face value amounting to HK$14,642 million equivalent during the year ended 31 December 2020 (2019: HK$1,183 million equivalent), details of which are set out in note 32C to the Consolidated Accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including financing of capital expenditure and refinancing of debts.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2020, the Group had borrowing of HK$500 million (2019: HK$32,183 million) with maturity in 2022 and no undrawn committed banking facility (2019: HK$5,568 million), which were subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

PROPERTIES

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 53 to 54.

CONNECTED TRANSACTIONS

During the year under review, the transactions described below were entered into with Government (which is a substantial shareholder of the Company as defined in the Listing Rules). Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements of Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

Land Agreements

A On 14 February 2020, the Company accepted an offer dated 30 December 2019 from Government to proceed with the proposed LOHAS Park Package Twelve Property Development at Site D of The Remaining Portion of Tseung Kwan O Town Lot No. 70 subject to payment of a land premium of HK$2,725,000,000 and on the terms and conditions of the relevant modification to New Grant No. 9689.

B On 6 November 2020, the Company accepted an offer dated 29 September 2020 from Government to proceed with the proposed LOHAS Park Package Thirteen Property Development at Site KL of The Remaining Portion of Tseung Kwan O Town Lot No. 70 subject to payment of a land premium of HK$5,568,000,000 and on the terms and conditions of the relevant modification to New Grant No. 9689.

C On 8 February 2021, the Company accepted an offer dated 29 December 2020 from Government to proceed with the proposed Wong Chuk Hang Station Package Five Property Development at Site E of Aberdeen Inland Lot No. 467 subject to payment of a land premium of HK$6,437,310,000 and on the terms and conditions of the relevant Conditions of Exchange No. 20304.

CONTINUING CONNECTED TRANSACTIONS

During the year under review, the following transactions and arrangements described below involved the provision of goods or services carried out on an ongoing or recurring basis and are expected to extend over a period of time with Government and/or KCRC, the Airport Authority (the "AA") and Leighton Contractors (Asia) Limited ("LCAL").

As noted above under the section headed "Connected Transactions", Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of Government and they are also connected persons of the Company as defined in the Listing Rules.

Metro Trains Melbourne Pty. Ltd. is a company incorporated in Australia, which is wholly owned by Metro Trains Australia Pty Ltd ("MTA"). The Company, UGL Rail Services Pty Limited ("UGL") and John Holland MTA Pty Ltd ("JHMTA") own 60%, 20% and 20% respectively of MTA and are, therefore, substantial shareholders of MTA. Accordingly, UGL and JHMTA are connected persons of the Company.

Since both UGL and LCAL are indirect wholly owned subsidiaries of CIMIC Group Limited, LCAL is an associate of UGL and is also a connected person of the Company.

Therefore, each of Government, KCRC, the AA and LCAL is a "connected person" of the Company for the purposes of the Listing Rules and, during 2020, each transaction set out at sections I, II III, IV and V below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with the Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to C below of this section (together, the "Merger-related Continuing Connected Transactions") and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;

- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK$7.79 billion in respect of the Property Package Agreements (as described in paragraph C on pages 163 to 164 and in paragraph E in the section headed "Additional Information in respect of the Rail Merger" below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C Property Package Agreements

Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the "said Assignments").

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to the concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on pages 180 to 181).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

II Non Merger-related Continuing Connected Transactions

The following disclosures, in paragraphs A1 to D below of this section together with the Third XRL Agreement (as defined below) (together, the "Non Merger-related Continuing Connected Transactions"), are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;

- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the "Third SCL Agreement") was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of the project management cost is HK$7,893 million and will be paid by Government to the Company on a quarterly basis;

- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK$3,000 million per annum and a total in aggregate of HK$15,000 million;
- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK$4,000 million per annum and a total in aggregate of HK$15,000 million;
- the Company's total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and

- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link

The Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company's liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the Construction and Commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of Government (the "Second XRL Agreement").

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK$4,590 million (further details relating to the amendments to this provision are set out in the section headed "The Third Agreement in relation to the Express Rail Link"), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK$2,000 million annually and HK$10,000 million in total) (the "Maximum Payment Limits");
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in

consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;

- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision are set out in the section headed "The Third Agreement in relation to the Express Rail Link"); and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government had agreed that the Company would proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company would be invited to undertake the operation of the Express Rail Link under the concession approach.

The Third Agreement in relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link project (the "Third XRL Agreement"). The Third XRL Agreement contains an integrated package of terms and provides that:

(i) Government will bear and finance the project cost up to HK$84.42 billion;

(ii) if the project cost exceeds HK$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;

(iii) the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share, in cash in each tranche);

(iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link, including an increase in the project management fee payable to the Company to HK$6.34 billion;

(v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the current cost overrun (if any); and

(vi) the Third XRL Agreement was subject to (a) the obtaining of approval of the Company's independent shareholders (which was obtained on 1 February 2016) and (b) the obtaining of approval of the Legislative Council for Government's additional funding obligations (which was obtained on 11 March 2016).

The first tranche of the special dividend of HK$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK$2.20 per share, was distributed on 12 July 2017.

Pursuant to the Third XRL Agreement, certain amendments have been made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations in relation to the Express Rail Link project).

C1 Maintenance Agreements for the Automated People Mover System at the Hong Kong International Airport

On 5 July 2013, the Company entered into a contract with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport (the "System") for a seven-year period (the "Existing Contract"), effective from 6 July 2013. It is expected that the highest amount per year receivable from the AA under the Existing Contract will be no more than HK$85 million.

The Existing Contract contains provisions relating to the operation and maintenance by the Company of the System and the carrying out by the Company of certain specified services in respect of the System, they include the following:

- provisions stating that the duration of the Existing Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the Midfield Concourse.

With the outbreak of COVID-19 and its disruptions to the aviation industry, the Existing Contract was extended for 6 months to 5 January 2021 and, on 2 July 2020, the Company entered into a new contract with the AA for the maintenance of the System for a seven-year period ("the New Contract") effective from 6 January 2021. It is expected that the highest amount per year receivable from the AA will be no more than HK$130 million under the New Contract.

The New Contract contains provisions relating to the operation and maintenance by the Company of the System and the carrying out by the Company of certain specified services in respect of the System, they include the following:

- provisions stating that the duration of the New Contract shall be seven years from 6 January 2021 up to and including 5 January 2028;

- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions of operational training and corresponding qualifications to the AA's personnel.

C2 Subcontractor Warranty to the AA

On 18 May 2018, the Company provided a sub-contractor warranty to the AA as a result of obtaining a subcontract from Niigata Transys Co., Ltd. ("NTS") for the modification works of the existing System for a seven-year period, effective from 25 September 2017 (the "Subcontract"). It is expected that the highest amount per year receivable from NTS will be no more than HK$60 million.

The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System, which includes the following:

- modification of the existing System for its extension to the new Automated People Mover Interchange Station;
- provision of related electrical and mechanical systems, including power distribution system, telecommunication systems and maintenance equipment; and
- relocation of existing maintenance equipment to the new Automated People Mover depot.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for Transport and Housing for and on behalf of Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The final payment certificate was issued on 28 June 2019.

The WIL Project Agreement includes provisions in relation to:

- payment by Government of HK$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public (which period was extended to no later than 30 June 2018 by a supplemental agreement between the Company and Government dated 23 December 2016, further extended for a period ended on or before 31 March 2019 by a second supplemental agreement between the Company and Government dated 29 June 2018, and further extended for a period ended on 30 June 2019 by a third supplemental agreement between the Company and Government dated 29 March 2019), payment by the Company to Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line

project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and

- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)

The following disclosures, in paragraphs A and B below of this section (together, the "Continuing Connected Transactions relating to the Operation of the High Speed Rail"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

A Amendment Operating Agreement

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "AOA") to amend and supplement the Integrated Operating Agreement dated 9 August 2007 (as described in paragraph D of the section headed "Additional Information in respect of the Rail Merger" on page 181, as amended ("Existing Integrated Operating Agreement"), in order to prescribe the operational requirements that will apply to the High Speed Rail. The intent and effect of the AOA is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail.

The AOA is an "operating agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the AOA are as follows:

The terms of the AOA are based substantially on the terms of the Existing Integrated Operating Agreement. The AOA has taken effect on 23 September 2018 (the "Commercial Operation Date (High Speed Rail)") and will expire at the same time as the Supplemental Service Concession Agreement (the "SSCA") entered into between the Company and KCRC on 23 August 2018.

Certain principal terms of the AOA that are specific to the High Speed Rail include:

- obligations on the Company to maintain specific performance requirements in relation to train service delivery, ticket machine reliability, ticket-gate reliability and escalators and passenger lifts reliability;
- obligations on the Company to publish specific customer services pledges in relation to train service delivery, ticket machine reliability, ticket-gate reliability, escalators and passenger lifts reliability, temperature and ventilation levels, railway cleanliness (relating only to the Company's High Speed Rail trains) and passenger enquiry response time;
- obligations in relation to the carrying out of the maintenance of the Company's High Speed Rail trains outside Hong Kong;
- obligations on the Company to carry out design checks and tests to verify that the Mainland operator's High Speed Rail trains are compatible with the Company's infrastructure and can run on the High Speed Rail safely;
- establishing procedures with the Mainland operator for approving the Mainland operator's trains to run on the High Speed Rail safely and for informing Government of the modification of any such trains;
- developing and maintaining a training qualification system for drivers of High Speed Rail trains;
- facilitating the carrying out of inspections by the railway inspector, including liaising with the Mainland operator for this purpose, where necessary;
- security obligations in relation to maintaining the integrity and security of the boundaries of the Mainland Port Area and the Cross-Boundary Restricted Area; and

- mechanisms and Government approval procedures for setting fares for High Speed Rail train journeys, including that:
  - (i) prior to the Commercial Operation Date (High Speed Rail), the Company will seek prior written consent from Government before setting the fares for the various available High Speed Rail ticket types; and
  - (ii) thereafter, fares cannot be adjusted, introduced or withdrawn without the prior consent of Government.

B Supplemental Service Concession Agreement

On 23 August 2018, the Company and KCRC entered into the SSCA to supplement the Service Concession Agreement dated 9 August 2007 (as described in paragraph B of the section headed "Additional Information in respect of the Rail Merger" on pages 180 and 181) (the "Existing Service Concession Agreement") in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. The intent and effect of the SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail. The financial provisions in the SSCA have been designed to reflect the provisions of the Existing Integrated Operating Agreement that relate to new concession projects, such as the High Speed Rail subject as set out below.

The SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the SSCA

The terms of the SSCA are based substantially on the terms of the Existing Service Concession Agreement. The operating period with respect to the High Speed Rail has commenced on the Commercial Operation Date (High Speed Rail) and will terminate automatically on the earlier of:

(i) a revocation of the Company's franchise under the MTR Ordinance in whole or in respect of the High Speed Rail; and

(ii) the date falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), but may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA, in which case it shall terminate on such other date as is agreed between the Company and KCRC (the "Concession Period (High Speed Rail)").

Certain principal terms of the SSCA that are specific to the High Speed Rail include:

- Additional concession payments for the High Speed Rail
  - (i) General

    The additional concession payments to be made by the Company to KCRC and by KCRC to the Company in respect of the High Speed Rail (described below) have been designed to reflect the requirements under the Existing Integrated Operating Agreement, inter alia, for the Company to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail (being discounted at a discount rate which reflects the Company's commercial rate of return in relation to the High Speed Rail).

    The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments, to reflect the current concession payments structure for the existing KCRC system under the Existing Service Concession Agreement.

    The additional concession payments for the High Speed Rail are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the Existing Service Concession Agreement.
  - (ii) Variable annual payments

    The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the

Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the High Speed Rail fares received or retained by the Company and revenue derived from businesses related to the High Speed Rail which may include, without limitation, advertising, telecommunications, duty free and kiosk rental.

(iii) Fixed annual payments for the High Speed Rail

In light of the variable annual payments described in paragraph (ii) above and in order for the Company to be able to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail as described above, the fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (High Speed Rail), will be equal to HK$7,965 million.

These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- Revenue-related arrangements

In addition, the SSCA contains the following revenue-related arrangements:

(i) Patronage adjustment

In respect of actual deviations from the current patronage projections for the High Speed Rail:

(a) any excess or shortfall in actual patronage of up to 15% in relation to the currently projected patronage for the High Speed Rail will be borne by the Company; and

(b) any excess or shortfall in actual patronage greater than 15% in relation to the currently projected patronage for the High Speed Rail will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC.

(ii) Incremental revenue adjustment

In respect of actual deviations from the currently projected patronage for the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date (High Speed Rail) up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), respectively) and which will be capped at HK$500 million and HK$1,000 million, respectively.

(iii) Mainland discount programme loss

In respect of revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator, the Company will receive reimbursement payments from KCRC on an annual basis.

KCRC and the Company will also discuss in good faith similar reimbursement arrangements should the Mainland operator introduce any other discount programmes in future.

(iv) Service fees subsidy

In respect of the proportion of the service fee charged in respect of tickets sold at West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland which Government has directed should be borne by the Company, the Company will receive reimbursement payments from KCRC on an annual basis.

- Pre-operating costs reimbursements

In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date (High Speed Rail) that satisfy all of the following criteria:

(i) that directly resulted from the planning and commencement of the operation of the relevant High Speed Rail assets;

(ii) that have not already been paid, and will not be paid or payable, by Government to the Company under any relevant agreement or which the Company and Government otherwise agree in writing should be treated as a pre-operating cost;

(iii) that are not covered in any of the payments to be made by KCRC to the Company under the SSCA; and

(iv) that fall within certain other types of agreed costs and expenses in connection with the operation of the High Speed Rail (including, mobilisation activities in preparation for the opening of the High Speed Rail and trial operations prior to the opening of the High Speed Rail, and other items as may be agreed between KCRC and the Company).

- Equalisation payment

  If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten-year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company. The intention of this equalisation payment is to ensure that the Company is partly protected in the event of early termination of the concession in respect of the High Speed Rail.

- High Speed Rail services

  The Company is obliged to operate the High Speed Rail during the Concession Period (High Speed Rail) to the standards prescribed in the MTR Ordinance and the Existing Operating Agreement (subject as otherwise stated herein). The Company is not regarded as having failed to meet a requirement under the MTR Ordinance or the Existing Integrated Operating Agreement if the failure has resulted from anything done or omitted to be done by the Mainland operator, any Mainland authority or persons directly under their control.

- Return requirements

  If the Concession Period (High Speed Rail) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the High Speed Rail concession property.

IV Continuing Connected Transactions relating to the Operation of the First Phase of the Tuen Ma Line

The following disclosures, in paragraphs A and B below of this section (together, the "Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

A Amendment Operating Agreement and Supplemental Operating Agreement

On 11 February 2020, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement ("TML1 AOA") and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the Supplemental Operating Agreement ("TML1 SOA") to amend and supplement, respectively, the Existing Integrated Operating Agreement in order to prescribe the operational requirements, such as service standards, that will apply to the first phase of the Tuen Ma Line ("TML1") which shall extend the existing Ma On Shan Railway from Tai Wai to Kai Tak with two new stations at Hin Keng and Kai Tak, and an interchange station at Diamond Hill. The intent and effect of the TML1 AOA and the TML1 SOA together is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to TML1.

The TML1 AOA and the TML1 SOA are each an "operating agreement" for the purposes of the MTR Ordinance, form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the MTR Ordinance so that TML1 is properly regulated under the MTR Ordinance.

The principal terms of the TML1 AOA and the TML1 SOA have the effect of bringing TML1 within the legal and regulatory regime for the operation of railways in Hong Kong contained in the Existing Integrated Operating Agreement, as explained above. The amendments under the TML1 AOA and the TML1 SOA took effect on 14 February 2020.

B Supplemental Service Concession Agreement

On 11 February 2020, the Company and KCRC entered into the Supplemental Service Concession Agreement No. 2 ("TML1 SSCA") relating to TML1, to supplement the Existing Service Concession Agreement in order for KCRC to grant a concession to the Company in respect of TML1 and to prescribe the operational and financial requirements that will apply to TML1. The intent and effect of the TML1 SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to TML1, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, TML1. The financial provisions in the TML1 SSCA have been designed to reflect the principles contained in the Existing Integrated Operating Agreement that relate to new concession projects, such as TML1 (as referred to in paragraph A above of this section) other than as set out below.

The TML1 SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forming part of the legal and regulatory regime for the operation of railways in Hong Kong, and is required for the purposes of the MTR Ordinance so that TML1 is properly regulated under the MTR Ordinance.

Principal Terms of the TML1 SSCA

The terms of the TML1 SSCA are based substantially on the terms of the Existing Service Concession Agreement, as explained above. The TML1 SSCA was made on 11 February 2020 and the term of the service concession and licence granted by KCRC to the Company pursuant to the terms of the TML1 SSCA and the commercial operation of TML1 commenced on 14 February 2020 (the "New Project Effective Date (TML1)"), which will terminate automatically on and from the earlier of (being the "Termination Date (TML1)"):

(i) the effective date of the revocation of the franchise pursuant to the MTR Ordinance as it relates to the KCRC railway;

(ii) the effective date of the withdrawal or revocation of the permission by the Director of Lands pursuant to the vesting deed entered into between KCRC and Government as well as the revocation of the franchise pursuant to the MTR Ordinance as it relates to TML1;

(iii) the first date of commissioning and commercial operation of the entire Tuen Ma Line ("TML2") to be designated by Government under a new supplemental service concession agreement for TML2 (which shall supersede and replace the TML1 SSCA); and

(iv) the day falling immediately before the second anniversary of the New Project Effective Date (TML1), or such later date as each of the Company, KCRC and Government may agree in a written agreement by no later than the date falling one month prior to the second anniversary of the New Project Effective Date (TML1) or prior to the last extended date (where applicable) ("Natural Expiry Date (TML1)").

Certain principal terms of the TML1 SSCA that are specific to TML1 include:

- Concession payments
  - (i) Variable annual payments

    The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the TML1 fares received or retained by the Company and revenue derived from businesses related to TML1 which may include, without limitation, telecommunications and kiosk rental.

(ii) Fixed annual payments for TML1

In light of the variable annual payments described above and in order for the Company to be able to earn a commercial return as described above, the fixed annual payments for TML1 shall comprise payments from KCRC to the Company which, in aggregate over the period commencing on the New Project Effective Date (TML1) and ending on the day prior to the Termination Date (TML1) ("Concession Period (TML1)") and assuming that the Concession Period (TML1) terminates on the Natural Expiry Date (TML1), will be equal to HK$465 million. These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- A new supplemental service concession agreement for TML2

On and from the date of the TML1 SSCA, to and including the date that is four months before the Natural Expiry Date (TML1) (prior to any extension or otherwise after such extension(s) as agreed in writing by the Company, KCRC and Government for the purposes of this end date), Government, the Company and KCRC shall commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for TML2 which shall, in accordance with the Existing Integrated Operating Agreement, enable the Company to earn a commercial rate of return from its operation of TML2 (and that new supplemental service concession agreement for TML2 is intended to replace the TML1 SSCA).

- Return requirements

If the Concession Period (TML1) expires or is terminated, and no supplemental service concession agreement is entered into for TML2, the Company shall, at no cost to KCRC, redeliver possession of the TML1 concession property.

V Non-Governmental Continuing Connected Transaction

The following disclosure (the "Non-Governmental Continuing Connected Transaction") is made in accordance with Rule 14A.71 of the Listing Rules.

Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As explained above, LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 (as amended by supplementary agreement no. 1 on 14 November 2014 and supplementary agreement no. 2 on 8 October 2020) (the "Contract 903") for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the "Contract 903 Works").

Contract 903 is in substantially the same form as the Company's standard conditions of contract for target cost construction and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;

- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;
- LCAL shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities;
- a bond issued by Chartis Insurance Hong Kong Limited has been provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 includes costs for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the costs for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, LCAL has agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of HK$3,638 million; and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

The final payment certificate of Contract 903 was issued to LCAL and payment was settled in September 2020. The final account price for Contract 903 was settled and agreed between the Company and LCAL, and the bond issued by Chartis Insurance Hong Kong Limited was returned to LCAL in October 2020.

In relation to the Merger-related Continuing Connected Transactions, the Non Merger-related Continuing Connected Transactions, the Continuing Connected Transactions relating to the Operation of the High Speed Rail, the Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line and the Non-Governmental Continuing Connected Transaction (collectively "Transactions") and in accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(i) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(a) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver; (iv) in the case of the Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver; and (v) in the case of the Non-Governmental Continuing Connected Transaction, Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive

Directors of the Company have reviewed and confirmed that each of the Transactions was entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to report on the Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(ii) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(b) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver; (iv) in the case of the Continuing Connected Transactions relating to the Operation of the first phase of the Tuen Ma Line, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver; and (v) in the case of the Non-Governmental Continuing Connected Transaction, Rule 14A.56 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that any of the Transactions has not been approved by the Board;

(b) nothing has come to their attention that causes them to believe that any of the Transactions was not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

in the case of the Non-Governmental Continuing Connected Transaction, in addition, that:

(c) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Group; and

(d) with respect to the aggregate amount of each of such transactions, nothing has come to their attention that causes them to believe that such transactions have exceeded the relevant annual caps as set by the Company in respect of each of such transactions.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below of this section describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below of this section set out summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below of this section), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below of this section) and the consideration for the purchased rail assets; and

- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on pages 162 to 163) in consideration for the execution of the Property Package Agreements (as described on pages 163 to 164 and in paragraph E below of this section) and the sale of the shares in the subsidiaries of KCRC (the "KCRC Subsidiaries") that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12-month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below in this section, no specific allocation was made between the various elements of the Rail Merger.

B Service Concession Agreement

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;
- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above in this section);
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

On 23 August 2018, the Company and KCRC entered into the SSCA in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. Further details are set out in the sub-section headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and KCRC entered into the TML1 SSCA in order for KCRC to grant a concession to the Company in respect of the first phase of the Tuen Ma Line of the Shatin to Central Link and to prescribe the operational and financial requirements that will apply to the TML1. Further details are set out in the sub-section headed "IV Continuing Connected Transactions relating to the Operation of the First Phase of the Tuen Ma Line" in the section headed "Continuing Connected Transactions".

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph E below in this section and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above in this section and in paragraph E below in this section).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway.

The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013 and the second was conducted in 2017. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. On 21 March 2017, the Company announced that it and Government had agreed to maintain the fare adjustment mechanism formula and direct-drive nature of such formula, save for certain consequential changes as a result of the review of the formula having been advanced by one year. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such review, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the AOA to amend and supplement the Integrated Operating Agreement dated 9 August 2007, as amended, in order to prescribe the operational requirements that will apply to the High Speed Rail. Further details are set out in the sub-section headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the TML1 AOA and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the TML1 SOA to amend and supplement, respectively, the Existing Integrated Operating Agreement, in order to prescribe the operational requirements that will apply to the first phase of the Tuen Ma Line of the Shatin to Central Link. Further details are set out in the sub-section headed "IV Continuing Connected Transactions relating to the Operation of the First Phase of the Tuen Ma Line" in the section headed "Continuing Connected Transactions".

E Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

F Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

CAPITAL AND REVENUE EXPENDITURE

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. During the year ended 31 December 2020, all project expenditures over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company required the approval of the Board.

REPORTING AND MONITORING

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

TREASURY MANAGEMENT

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt portfolio with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

COMPUTER PROCESSING

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2015. Disaster recovery rehearsal on critical applications is conducted annually. For cyber security, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation. The Corporate Cyber Security Committee sets the direction, strategy, and policies related to cyber security for the Company. It steers and oversees the management and performance of all matters relating to cyber security. Various security controls have been implemented and are reviewed regularly to protect the Company from cyber-attacks.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2020 and on 11 March 2021 when this Report was approved. To ensure sufficient coverage is provided, the Company undertakes an annual review of the Directors' and Officers' liability insurance policy of the Company (the "D&O Insurance Policy") in light of recent trends in the insurance market and other relevant factors. The D&O Insurance Policy also indemnifies the other directors within the Group.

GOING CONCERN

The Consolidated Accounts on pages 190 to 270 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2021, together with the longer-term forecast for the following five years and is satisfied that the Group has sufficient resources to continue as a going concern for the foreseeable future.

AUDITORS

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Directors to fix their remuneration.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 11 March 2021

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Altamirano Celis, Sandra Elena	√	
Arrowsmith, Stephen		√
Dr Auyeung Pak-kuen, Rex	√	
Bailie, William Paul	√	
Butcher, Stephen Anthony*		√
Chan Chi-kun	√	
Chan Hing-keung	√	
Chan Wai-man, Raymond*	√	
Chan Yuen-ping*	√(Resigned)	
Dr Chan Yuen Tak-fai, Dorothy	√	
Chen Lei	√	
Cheng Wai-ching, Margaret*	√	
Cheng Yan-kee	√	
Chow Chiu-wai*		√
Chow Chun-ling*	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Dalin, Bengt Carl Harald Henrik*	√	√(Resigned)
Damm, Bo Fredrik	√	
Downie, Brian Francis*	√	√
Edlund, Lars Anders	√(Resigned)	
Dr Ewen, Peter Ronald*	√(Resigned)	
Dr Fong Ching, Eddy	√	
Fu Oi-yu	√	
Fung Wai-yee*	√	
Gao Ling	√	
Hellners, Karl Erik Hjalmar*	√	
Ho Ka-wa*	√	
Holness, Nigel Graham	√(Resigned)	
Hui Leung-wah, Herbert*	√	
Jensen, Frederik Mark*	√(Resigned)	
Jia Jun	√	
Jim Kwok-wah*	√	
Johannesson, Mats Göran	√	
Jones, Niel L.		√
Jubian, Albert*	√	
Dr Kam Chak-pui, Jacob*	√	
King, Andrew Lewis*	√	
Kwok Lai-kay, Lena*	√	√
Kwong Chung-hing*		√
Lai Ching-kai*		√
Lau Kwai-hin, Kenneth*	√	
Lau Tin-shing, Adi*	√	
Lau Wai-ming*	√	
Dr Lee Kar-yun, Tony*	√	
Lee Yuen-ling*	√	
Leung Hang-kin	√(Resigned)	
Leung Yiu-fai, David	√	
Li Sau-lin, Linda*		√
Li Jerry Zhe*	√	
Liu Chung-gay	√(Resigned)	
Long, Jeremy Paul Warwick*	√(Resigned)	
Lung Tze-ho*	√	√
Luo Jiancheng	√	
McCusker, Andrew*	√	
McKenzie, Andrew Charles*		√(Resigned)
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	
Moros, Tony Antonio	√	
Murphy, Stephen John*	√	
Mylvaganam, Deva Rajan*	√	
Nelson, Michael John*	√(Resigned)	
Ng Yuen-fan, Hannah		√
Nilsson, Per Håkan Lennart*	√	
Norris, Mark Frederick*	√(Resigned)	
O'Flaherty, Raymond Anthony*	√	
Oscarsson, Karl Johan*	√(Resigned)	
Pang Hoi-hing*	√	
Poon Kai-chung*	√	
Quarrie, Ian Roger*		√
Shao Jianming	√	
Shen Linchong	√	
Sin Pik-kwan	√	
Söderström, Tim Rafael		√
Soo Tsung Lee, Gene	√	
Suen Yiu-tat	√	
Tam Lup-kwan*	√	√
Tang Chi-fai, David*	√	
Waymark, Leah Nicole	√(Resigned)	
Wei Li-ping	√	
Williams Daniel	√	
Dr Wong Chi-yun, Allan	√(Resigned)	
Wong Daniel*	√	
Wong Ho-leung*	√(Resigned)	
Wong Kin-wai*	√	
Wong Kwan-wai, Sammy	√	
Wong O-cheung, Ernest	√	
Wong Ping-sau*	√	
Wong Wing-kin*	√	
Xia Jing	√	
Xu Muhan*	√	
Yam Pak-nin*	√	√
Yeung Mei-chun, Jeny*	√	
Young Ka-fan, Glen		√
Yuen Lai-ki*	√	
Yuen Lap-hang	√	
Zhang Ling	√	
Zhu Chunlei	√	

* *Person who serves as a director and/or an alternate director in more than one subsidiary.*

CONTENTS OF CONSOLIDATED ACCOUNTS AND NOTES

KPMG

Independent auditor's report to the members of MTR Corporation Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated accounts of MTR Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 190 to 270, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated accounts, including a summary of significant accounting policies.

In our opinion, the consolidated accounts give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated accounts* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Railway construction in progress under entrustment by the HKSAR Government

Refer to note 21 to the consolidated accounts and the accounting policies in note 2AA

The key audit matter	How the matter was addressed in our audit
The Group and the Government of the Hong Kong Special Administrative Region ("HKSAR Government") have entered into certain entrustment arrangements whereby the Group has been entrusted by the HKSAR Government to proceed with the planning, design, construction, testing and commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the HSR") and the Shatin to Central Link ("the SCL"). As the HKSAR Government is the owner of both the HSR and the SCL, the financing of the development of these two railway lines is borne by the HKSAR Government, with the Group receiving project management fees. **HSR** Pursuant to an agreement entered into with the HKSAR Government on 30 November 2015, the Group will bear and finance project costs for the HSR (including the Group's project management fees) which exceed HK$84.42 billion and the HKSAR Government reserves the right to refer to arbitration the question of the Group's liability, if any, in respect of the project costs borne and financed by the HKSAR Government which exceed HK$65 billion up to HK$84.42 billion. In the event that the Group is found to be liable under the relevant HSR entrustment agreements, the Group's liability for such costs is currently limited to the amount of the project management fees and certain other additional fees received by the Group under the agreements. In September 2018, construction of the HSR was completed following which commercial operations commenced. However, the total project costs can only be ascertained upon finalisation of all construction contracts which may take several years to reach agreement and settlement. Management has engaged an independent expert to provide an independent assessment of management's estimate of cost to complete the HSR project. As at 31 December 2020, the Group has made a provision for project management costs as it estimated that the total costs to complete its performance obligations under the HSR entrustments are likely to exceed the project management fees from the HKSAR Government. No other provision for project costs has been made.	Our audit procedures in relation to railway construction in progress under entrustment by the HKSAR Government included the following: • inspecting the minutes of the relevant committees of the Group and discussing with management the current status of the HSR and SCL projects, including: (a) For the HSR, the forecast total project costs, assessment of contract claims, estimate of further internal costs to be incurred and the assessment of the financial implications of the project for the Group; (b) For the SCL, the costs incurred to date, remaining critical milestones and estimated costs to complete, and further internal costs to be incurred and the assessment of the financial implications of the project for the Group; • assessing the design and implementation of management's key internal controls over the determination of the project costs for the HSR and SCL projects; • evaluating the qualifications, experience, expertise, independence and objectivity of the independent expert engaged by management for the HSR; • discussing with the independent expert the forecast total project costs for the HSR project and the risk of these exceeding HK$84.42 billion, and comparing, on a sample basis, the assessed project costs for the HSR with relevant underlying documentation; • comparing, on a sample basis, costs incurred during the current year in respect of the HSR and SCL with underlying contracts and interim or final payment certificates;

Railway construction in progress under entrustment by the HKSAR Government *(continued)*	
Refer to note 21 to the consolidated accounts and the accounting policies in note 2AA	
The key audit matter	**How the matter was addressed in our audit**
SCL Towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension. A commission of enquiry ("COI") was set up by the HKSAR Government to investigate, inter-alia, certain construction works at the Hung Hom station extension. Subsequently, the Group advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings. The terms of the COI were expanded in February 2019. A redacted final report from the COI was published in May 2020, in which the COI determined that it is satisfied that, with suitable measures completed, the relevant structures will be safe and fit for purpose. The management considered that the suitable measures for the relevant structures were completed during the year. In July 2019, the HKSAR Government accepted the Group's recommendation that the Tuen Ma Line should open in phases ("Phased Opening"). The Group has announced that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom incidents and certain costs associated with the Phased Opening ("Hung Hom Incidents Related Costs"), which were estimated to be around HK$2 billion in aggregate, and has charged the full amount of such estimate in its consolidated profit and loss account for the year ended 31 December 2019. In February 2020, the Group notified the HKSAR Government of the latest estimate of the cost to complete the SCL Project of HK$82,999 million including the additional project management fee payable to the Group of HK$1,371 million, which increased from the original estimate of HK$70,827 million. In June 2020, the Legislative Council approved additional funding amounting to HK$10,801 million sought by the HKSAR Government, which excludes the Hung Hom Incidents Related Costs and the additional project management fee for the Group, and the HKSAR Government has maintained its position of disagreement to any increase in the project management fee. The Group has announced that it would continue to meet, on an interim and without prejudice basis, the costs of complying with its project management obligations under the entrustment agreements, which were estimated to be around HK$1,371 million ("Project Management Costs"), and has charged the full amount of such estimate in its consolidated profit and loss account for the year ended 31 December 2020. The above matters are ongoing and the timing of their ultimate resolution and any further financial impact to the Group are highly uncertain at this stage. In the event that the Group is found to be liable under the entrustment agreements, the Group's liability is currently limited to a cap equal to the aggregate fees received by the Group under the relevant SCL agreements. However, such cap could not be relied upon if the Group were, in accordance with general principles of law, found to be liable for any loss that had been caused by the fraudulent or other dishonest conduct of its employees or agents. We identified railway construction in progress under entrustment by the HKSAR Government as a key audit matter because the arrangements in respect of these railway projects are highly complex and convey rights and obligations on the Group which could potentially have significant financial implications for the Group.	• inspecting the relevant entrustment agreements to ascertain project management fees receivable and comparing the receipt of such project management fees for the year with bank statements and other relevant documentation; • assessing the provisions made for the Hung Hom Incidents Related Costs and Project Management Costs, which are funded by the Group, by inspecting, on a sample basis, the relevant underlying documentation and, where applicable, the actual amounts incurred during the year; • holding discussions with management and the Group's external legal advisors to assess the Group's legal obligations and financial exposure in connection with the HSR and SCL projects; and • assessing the disclosures in the consolidated accounts in relation to the HSR and SCL projects with reference to the requirements of the prevailing accounting standards.

Valuation of investment properties ("IP")	
Refer to note 19A to the consolidated accounts and the accounting policies in note 2E(i)	
The key audit matter	**How the matter was addressed in our audit**
The fair value of the Group's IP as at 31 December 2020 was HK$86,058 million, with a revaluation loss for the year ended 31 December 2020 recorded in the consolidated profit and loss account of HK$9,190 million. The Group's IP, which are mainly located in Hong Kong, principally comprise shopping malls and office premises. The fair values of the Group's IP were assessed by external property valuers based on independent valuations. We identified valuation of the Group's IP as a key audit matter because of the significance of IP to the consolidated accounts and because the determination of the fair values involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology, market yields and market rents.	Our audit procedures to assess the valuation of the Group's IP included the following: • obtaining and inspecting the IP valuation reports prepared by the external property valuers; • evaluating the independence, qualifications, expertise and objectivity of the external property valuers; • evaluating the valuation methodologies adopted with reference to prevailing accounting standards and those applied by other external property valuers for similar property types; • holding discussions with management and the external property valuers and challenging the key assumptions and estimates adopted in the valuations, including prevailing market rents and market yields applied by comparing, on a sample basis, the key estimates adopted with comparable available market data; and • comparing the tenancy information, including occupancy rates and market rents, provided by the Group to the external property valuers with underlying contracts and documentation, on a sample basis.

Assessing potential impairment of fixed assets other than assets carried at revalued amounts	
Refer to notes 19B and 20 to the consolidated accounts and the accounting policies in note 2I(ii)	
The key audit matter	**How the matter was addressed in our audit**
The carrying value of the Group's fixed assets other than assets carried at revalued amounts as at 31 December 2020 totalled HK$131,127 million and the related depreciation and amortisation charge for the year ended 31 December 2020 amounted to HK$5,589 million. The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets. We identified the potential impairment of fixed assets other than assets carried at revalued amounts as a key audit matter because the assessment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.	Our audit procedures to assess the potential impairment of fixed assets other than assets carried at revalued amounts included the following: • discussing indicators of impairment on fixed assets with management, and where such indicators were identified, evaluating management's impairment assessments and the assumptions adopted therein, including revenue assumptions, with reference to the actual revenue levels achieved in the current year, future operating plans and broader city specific developments; • assessing the discount rates adopted by management in the impairment assessments by comparison with available financial information of other similar companies taking into account regional and industry specific risk premiums; • comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, investigating significant variances identified and considering the impact on the current year's impairment assessments; and • performing sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considering the information used to derive the most sensitive assumptions and whether there were any indicators of management bias in their selection.

Information other than the consolidated accounts and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated accounts and our auditor's report thereon.

Our opinion on the consolidated accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated accounts

The directors are responsible for the preparation of the consolidated accounts that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit Roy.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 March 2021

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December in HK$ million	Note	2020	2019
Revenue from Hong Kong transport operations	4	**11,896**	19,938
Revenue from Hong Kong station commercial businesses	5	**3,269**	6,799
Revenue from Hong Kong property rental and management businesses	6	**5,054**	5,137
Revenue from Mainland of China and international railway, property rental and management subsidiaries	7	**21,428**	21,085
Revenue from other businesses	8	**894**	1,545
		42,541	54,504
Revenue from Mainland of China property development	7	**–**	–
Total revenue		**42,541**	54,504
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	10A	**(6,317)**	(6,489)
– Maintenance and related works		**(2,085)**	(2,662)
– Energy and utilities		**(1,671)**	(1,841)
– General and administration expenses		**(888)**	(1,209)
– Railway support services		**(295)**	(630)
– Stores and spares consumed		**(572)**	(613)
– Government rent and rates		**(284)**	(256)
– Other expenses		**(206)**	(329)
		(12,318)	(14,029)
Expenses relating to Hong Kong station commercial businesses		**(509)**	(680)
Expenses relating to Hong Kong property rental and management businesses		**(850)**	(851)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	7	**(20,895)**	(19,760)
Expenses relating to other businesses	21B(b)(iii)& (c)(iii)	**(2,496)**	(3,557)
Project study and business development expenses		**(279)**	(276)
		(37,347)	(39,153)
Expenses relating to Mainland of China property development	7	**(13)**	(25)
Operating expenses before depreciation, amortisation and variable annual payment	10B&C	**(37,360)**	(39,178)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**5,194**	15,351
– Arising from Mainland of China property development		**(13)**	(25)
		5,181	15,326
Profit on Hong Kong property development	12	**6,491**	5,707
Operating profit before depreciation, amortisation and variable annual payment		**11,672**	21,033
Depreciation and amortisation	13	**(5,365)**	(5,237)
Variable annual payment		**(238)**	(2,583)
Share of profit of associates and joint venture	24	**605**	288
Profit before interest, finance charges and taxation		**6,674**	13,501
Interest and finance charges	14	**(1,004)**	(859)
Investment property revaluation (loss)/gain	19A	**(9,190)**	1,372
(Loss)/profit before taxation		**(3,520)**	14,014
Income tax	15A	**(1,301)**	(1,922)
(Loss)/profit for the year		**(4,821)**	12,092
Attributable to:			
– Shareholders of the Company		**(4,809)**	11,932
– Non-controlling interests		**(12)**	160
(Loss)/profit for the year		**(4,821)**	12,092
(Loss)/profit for the year attributable to shareholders of the Company:			
– Arising from recurrent businesses		**(1,126)**	4,980
– Arising from property development		**5,507**	5,580
– Arising from underlying businesses		**4,381**	10,560
– Arising from investment property revaluation		**(9,190)**	1,372
		(4,809)	11,932
(Loss)/earnings per share:	17		
– Basic		**(HK$0.78)**	HK$1.94
– Diluted		**(HK$0.78)**	HK$1.94

The notes on pages 195 to 270 form part of the consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	2020	2019
(Loss)/profit for the year		**(4,821)**	12,092
Other comprehensive income for the year (after taxation and reclassification adjustments):	18		
Items that will not be reclassified to profit or loss:			
– (Loss)/surplus on revaluation of self-occupied land and buildings		**(274)**	121
– Remeasurement of net asset/liability of defined benefit schemes		**752**	730
		478	851
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		**1,282**	(344)
– non-controlling interests		**13**	(15)
– Cash flow hedges: net movement in hedging reserve		**(73)**	244
		1,222	(115)
		1,700	736
Total comprehensive (loss)/income for the year		**(3,121)**	12,828
Attributable to:			
– Shareholders of the Company		**(3,122)**	12,683
– Non-controlling interests		**1**	145
Total comprehensive (loss)/income for the year		**(3,121)**	12,828

The notes on pages 195 to 270 form part of the consolidated accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK$ million	Note	At 31 December 2020	At 31 December 2019
Assets			
Fixed assets			
– Investment properties	19A	**86,058**	91,712
– Other property, plant and equipment	19B	**101,999**	102,632
– Service concession assets	20	**32,875**	31,261
		220,932	225,605
Goodwill and property management rights		**79**	77
Property development in progress	22A	**11,942**	12,022
Deferred expenditure		**1,116**	1,948
Interests in associates and joint venture	24	**11,592**	10,359
Deferred tax assets	37B	**470**	134
Investments in securities	25	**468**	386
Properties held for sale	26	**1,800**	1,245
Derivative financial assets	27	**480**	198
Stores and spares	28	**2,014**	1,844
Debtors and other receivables	29	**13,313**	11,169
Amounts due from related parties	30	**5,462**	3,041
Cash, bank balances and deposits	31	**20,906**	21,186
		290,574	289,214
Liabilities			
Short-term loans	32A	**3,357**	3,371
Creditors, other payables and provisions	33	**36,837**	33,315
Current taxation	37A	**1,004**	2,024
Amounts due to related parties	34	**453**	2,990
Loans and other obligations	32A	**46,983**	36,085
Obligations under service concession	35	**10,295**	10,350
Derivative financial liabilities	27	**381**	408
Loans from holders of non-controlling interests	36	**158**	144
Deferred tax liabilities	37B	**14,125**	13,729
		113,593	102,416
Net assets		**176,981**	186,798
Capital and reserves	38		
Share capital		**59,666**	58,804
Shares held for Executive Share Incentive Scheme		**(262)**	(263)
Other reserves		**117,384**	128,065
Total equity attributable to shareholders of the Company		**176,788**	186,606
Non-controlling interests		**193**	192
Total equity		**176,981**	186,798

Approved and authorised for issue by the Members of the Board on 11 March 2021

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

The notes on pages 195 to 270 form part of the consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

				Other reserves							
for the year ended 31 December in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
2020											
Balance as at 1 January 2020		**58,804**	**(263)**	**3,936**	**221**	**160**	**(1,132)**	**124,880**	**186,606**	**192**	**186,798**
Changes in equity for the year ended 31 December 2020:											
– Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(4,809)**	**(4,809)**	**(12)**	**(4,821)**
– Other comprehensive income for the year	18	**–**	**–**	**(274)**	**(73)**	**–**	**1,282**	**752**	**1,687**	**13**	**1,700**
– Total comprehensive loss for the year		**–**	**–**	**(274)**	**(73)**	**–**	**1,282**	**(4,057)**	**(3,122)**	**1**	**(3,121)**
– 2019 final ordinary dividend	16	**–**	**–**	**–**	**–**	**–**	**–**	**(6,036)**	**(6,036)**	**–**	**(6,036)**
– Shares issued in respect of scrip dividend of 2019 final ordinary dividend	38A	**692**	**(2)**	**–**	**–**	**–**	**–**	**2**	**692**	**–**	**692**
– 2020 interim ordinary dividend	16	**–**	**–**	**–**	**–**	**–**	**–**	**(1,545)**	**(1,545)**	**–**	**(1,545)**
– Shares issued in respect of scrip dividend of 2020 interim ordinary dividend	38A	**81**	**(1)**	**–**	**–**	**–**	**–**	**1**	**81**	**–**	**81**
– Shares purchased for Executive Share Incentive Scheme	38B	**–**	**(86)**	**–**	**–**	**–**	**–**	**–**	**(86)**	**–**	**(86)**
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	38B	**6**	**90**	**–**	**–**	**(94)**	**–**	**(2)**	**–**	**–**	**–**
– Employee share-based payments		**–**	**–**	**–**	**–**	**121**	**–**	**–**	**121**	**–**	**121**
– Employee share options exercised	38A	**83**	**–**	**–**	**–**	**(6)**	**–**	**–**	**77**	**–**	**77**
Balance as at 31 December 2020		**59,666**	**(262)**	**3,662**	**148**	**181**	**150**	**113,243**	**176,788**	**193**	**176,981**
2019											
Balance as at 1 January 2019		57,970	(265)	3,815	(26)	142	(788)	119,591	180,439	172	180,611
Changes in equity for the year ended 31 December 2019:											
– Profit for the year		–	–	–	–	–	–	11,932	11,932	160	12,092
– Other comprehensive income for the year	18	–	–	121	244	–	(344)	730	751	(15)	736
– Total comprehensive income for the year		–	–	121	244	–	(344)	12,662	12,683	145	12,828
– Amounts transferred from hedging reserve to initial carrying amount of hedged items		–	–	–	3	–	–	–	3	–	3
– 2018 final ordinary dividend	16	–	–	–	–	–	–	(5,835)	(5,835)	–	(5,835)
– Shares issued in respect of scrip dividend of 2018 final ordinary dividend	38A	654	(2)	–	–	–	–	2	654	–	654
– 2019 interim ordinary dividend	16	–	–	–	–	–	–	(1,539)	(1,539)	–	(1,539)
– Shares issued in respect of scrip dividend of 2019 interim ordinary dividend	38A	71	(1)	–	–	–	–	1	71	–	71
– Shares purchased for Executive Share Incentive Scheme	38B	–	(88)	–	–	–	–	–	(88)	–	(88)
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	38B	5	93	–	–	(96)	–	(2)	–	–	–
– Ordinary dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	–	(125)	(125)
– Employee share-based payments		–	–	–	–	122	–	–	122	–	122
– Employee share options exercised	38A	104	–	–	–	(8)	–	–	96	–	96
Balance as at 31 December 2019		58,804	(263)	3,936	221	160	(1,132)	124,880	186,606	192	186,798

The notes on pages 195 to 270 form part of the consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December in HK$ million	Note	2020		2019	
Cash flows from operating activities					
Cash generated from operations	39	**2,548**		17,120	
Receipt of government subsidy for Shenzhen Metro Line 4 operation		**587**		608	
Purchase of tax reserve certificates		**(57)**		(54)	
Current tax paid					
– Hong Kong Profits Tax paid		**(1,964)**		(308)	
– Tax paid outside Hong Kong		**(342)**		(323)	
Net cash generated from operating activities			**772**		17,043
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(5,226)**		(5,291)	
– Hong Kong railway extension projects		**(250)**		(292)	
– Investment property projects and fitting out work		**(3,539)**		(308)	
– Other capital projects		**(234)**		(181)	
Fixed and variable annual payments		**(3,333)**		(3,055)	
Receipts in respect of property development		**8,583**		9,175	
Payments in respect of property development		**(412)**		(3,259)	
Decrease/(increase) in bank deposits with more than three months to maturity when placed or pledged		**3,813**		(3,683)	
Investments in associates and joint venture		**(210)**		(1,416)	
Others		**133**		(2)	
Net cash used in investing activities			**(675)**		(8,312)
Cash flows from financing activities					
Proceeds from shares issued under share option scheme		**77**		96	
Purchase of shares for Executive Share Incentive Scheme		**(86)**		(88)	
Proceeds from loans and capital market instruments		**26,872**		11,659	
Repayment of loans and capital market instruments		**(16,495)**		(13,172)	
Interest and finance charges paid		**(1,039)**		(1,054)	
Interest received		**555**		370	
Capital element of lease rentals paid		**(232)**		(165)	
Dividends paid to shareholders of the Company		**(6,808)**		(6,649)	
Dividends paid to holders of non-controlling interests		**–**		(125)	
Net cash generated from/(used in) financing activities			**2,844**		(9,128)
Net increase/(decrease) in cash and cash equivalents			**2,941**		(397)
Cash and cash equivalents at 1 January			**8,346**		8,865
Effect of exchange rate changes			**592**		(122)
Cash and cash equivalents at 31 December	31		**11,879**		8,346

The notes on pages 195 to 270 form part of the consolidated accounts.

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2020. None of these 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 this annual report. The Group has not applied any new standard or amendment to standards that is not yet effective for the current accounting period (note 48).

2 Principal Accounting Policies

A Basis of Preparation of the Consolidated Accounts

(i) The measurement basis used in the preparation of the consolidated accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied buildings (note 2E(ii));
- investments in securities (note 2O); and
- derivative financial instruments (note 2V).

(ii) The preparation of the consolidated accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated accounts and estimates are discussed in note 47.

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint venture (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2I(ii)).

2 Principal Accounting Policies *(continued)*

D Associates and Joint Ventures

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets and any impairment loss relating to the investment (note 2I(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (note 2I(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated profit and loss account. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (note 2I(ii)).

E Fixed Assets

(i) Investment Properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the period in which they arise.

(ii) Other Property, Plant and Equipment

Leasehold land registered and located in the Hong Kong Special Administrative Region is stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Self-occupied leasehold buildings where the Group is the registered owner of the property interest are stated at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied leasehold building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the consolidated profit and loss account; and

(b) where a revaluation deficit had previously been charged to the consolidated profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the consolidated profit and loss account to the extent of the deficit previously charged to the consolidated profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

Civil works and plant and equipment, including right-of-use assets arising from freehold or leasehold properties where the Group is not the registered owner of the property interest, and right-of-use assets arising from leases of underlying plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2I(ii)).

Assets under construction include capital works on operating railway and are stated at cost less impairment losses (note 2I(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(iii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the consolidated profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the consolidated profit and loss account by reference to the stage of completion at the end of the reporting period while the fair value of construction service is capitalised initially as service concession assets in the consolidated statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for assets subject to service concession is capitalised and amortised on a straight-line basis at rates sufficient to write off their cost less their estimated residual value, if any, over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried at cost less accumulated amortisation and impairment losses, if any (note 2I(ii)).

(iv) Subsequent Expenditure and Gains or Losses on Retirement or Disposal

Subsequent expenditure relating to the replacement and/or upgrade of certain parts of an existing asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with any gain or loss arising therefrom being dealt with in the consolidated profit and loss account.

Expenditure on repairs or maintenance of an existing asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the consolidated profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the consolidated profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to consolidated profit and loss account.

F Leased Assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a Lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (notes 2J and 2I(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2E(i);
– right-of-use assets related to leasehold self-occupied buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2E(ii); and
– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2N.

2 Principal Accounting Policies *(continued)*

F Leased Assets *(continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(ii) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2AA(ii).

G Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2I(ii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

H Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated at cost less accumulated amortisation and impairment losses (note 2I(ii)). Property management rights are amortised to the consolidated profit and loss account on a straight-line basis over the terms of the management rights.

I Impairment of Assets

(i) Credit Losses from Financial Instruments, Contract Assets and Lease Receivables

For the Group's trade receivables, contract assets and lease receivables, the Group recognises a loss allowance for expected credit losses ("ECL") which is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs". Financial assets measured at fair value are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 Principal Accounting Policies *(continued)*

I Impairment of Assets *(continued)*

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including right-of-use assets and service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the consolidated profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

J Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(iii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

2 Principal Accounting Policies *(continued)*

J Depreciation and Amortisation *(continued)*

Plant and Equipment

Rolling stock and components	6 – 42 years
Platform screen doors	10 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 45 years
Power supply systems	5 – 40 years
Aerial ropeway and cabin	10 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	9 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 35 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	10 – 40 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.

K Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the consolidated profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

L Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the consolidated profit and loss account on the basis of note 2M(iii) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

M Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Payments received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Profits arising from the development of properties in Hong Kong undertaken in conjunction with property developers are recognised in the consolidated profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from the development, the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2N and included within properties held for sale; and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the consolidated profit and loss account, as the case may be.

(iv) Revenue arising from sales of properties in Mainland of China is recognised when the legal assignment is completed, which is the point in time when the purchaser has the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under "Creditors and other payables".

(v) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

N Properties Held for Sale

Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

For those properties in Hong Kong, cost represents the fair value, as determined by reference to an independent open market valuation, upon the recognition of profits arising from the development as set out in note 2M(iii).

For those properties in Mainland of China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

When properties held for sale are sold, the carrying amount of those properties is recognised in the consolidated profit and loss account.

2 Principal Accounting Policies *(continued)*

O Investments in Securities

Investments in securities (other than investments in subsidiaries, associates and joint venture) are classified as at fair value through profit or loss ("FVPL"). Changes in the fair value of the investments (including interest) are recognised in profit or loss.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investments. Profit or loss on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated profit and loss account as they arise.

P Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

Q Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (note 2AA) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2I(i) and are reclassified to receivables when the right to the consideration has become unconditional (note 2S).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (note 2AA). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (note 2S).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (note 2AB).

R Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

S Debtors and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (note 2Q). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (note 2I(i)).

T Interest-bearing Borrowings

Interest-bearing borrowings are measured initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs using effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for interest and finance charges (note 2AB).

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the consolidated profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

U Creditors and Other Payables

Creditors and other payables are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

V Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are recognised at fair value and are remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

2 Principal Accounting Policies *(continued)*

V Derivative Financial Instruments and Hedging Activities *(continued)*

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated profit and loss account in the periods when the hedged item is recognised in the consolidated profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the consolidated profit and loss account.

(iii) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated profit and loss account as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated profit and loss account.

W Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement schemes, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the consolidated profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. Service cost and net interest expense/income on the net defined benefit liability/asset are recognised either as an expense in the consolidated profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the scheme's obligations.

2 Principal Accounting Policies *(continued)*

W Employee Benefits *(continued)*

When the benefits of a scheme are changed, or when a scheme is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit or loss account or capitalised at the earlier of when the scheme amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement schemes are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

  During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options) which is released directly to retained profits.
- For award shares under the Executive Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

  For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to consolidated profit and loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Executive Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

(iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

X Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the consolidated profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit (provided they are not part of a business combination).

2 Principal Accounting Policies *(continued)*

X Income Tax *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interests in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Y Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the consolidated profit and loss account and recognised as deferred income within creditors and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated profit and loss account over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in creditors and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation). To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2I(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

Z Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(ii) Onerous Contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

2 Principal Accounting Policies *(continued)*

AA Revenue Recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

(iv) Income from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AB Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the consolidated profit and loss account.

Finance charges on lease liabilities are charged to the consolidated profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

AC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Statement of financial position items are translated into Hong Kong dollars at the closing exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2 Principal Accounting Policies *(continued)*

AD Segment Reporting

Operating segments, and the amounts of each segment item reported in the consolidated accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

AE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person has control, joint control or significant influence over the Group, or is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate or joint venture of the Group; (iii) the entity is a post-employment benefit scheme for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control or joint control over that entity; (v) a person, or a close member of that person's family, who has control or joint control over the Group has significant influence over the entity or is a member of the key management personnel of that entity; or (vi) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

AF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance with the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the end of the reporting period. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the end of the reporting period are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line Phase 1

Rail Merger

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") (the "Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement.

Pursuant to the Service Concession Agreement ("SCA"), KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the franchise period (as it relates to the KCRC railway) is extended. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay to KCRC fixed annual payments and variable annual payments (calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds).

Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value.

Details of the Rail Merger are disclosed in the Company's circular dated 3 September 2007.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line Phase 1 *(continued)*

Operating Arrangements for High Speed Rail

On 23 August 2018, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") in substantially the same manner as the existing railway network. Under the supplemental service concession agreement that was executed on 23 August 2018 ("SSCA-HSR"), the operating period with respect to the HSR is for an initial term of 10 years from 23 September 2018 ("Concession Period (High Speed Rail)"), which may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA-HSR. Under the SSCA-HSR, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the High Speed Rail (with any new assets acquired being classified as "additional concession property (High Speed Rail)"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold (High Speed Rail)"), the Company will be reimbursed for any above-threshold expenditure at the end of the concession period with such reimbursement to be on the basis of depreciated book value.

Details of the SSCA-HSR are disclosed in the Company's announcement dated 23 August 2018.

Operating Arrangements for Tuen Ma Line Phase 1

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate Tuen Ma Line Phase 1 (which extends the Ma On Shan Line from Tai Wai to Kai Tak) in substantially the same manner as the existing railway network for a period of two years from 14 February 2020 including a supplemental service concession agreement ("SSCA-SCL") with KCRC. 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 SSCA-SCL that was executed on 11 February 2020). Under the SSCA-SCL, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the Tuen Ma Line Phase 1.

Details of the SSCA-SCL are disclosed in the Company's announcement dated 11 February 2020.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	2020	2019
Domestic Service	**9,229**	12,714
Cross-boundary Service	**516**	3,164
High Speed Rail	**1,277**	2,098
Airport Express	**140**	1,011
Light Rail and Bus	**481**	677
Intercity Service	**20**	175
Others	**233**	99
	11,896	19,938

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines, and Tuen Ma Line Phase 1. Others include mainly by-law infringement surcharge, Octopus load agent fees and other rail-related income.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2020	2019
Duty free shops and kiosks	**2,021**	4,800
Advertising	**516**	1,130
Telecommunication income	**640**	743
Other station commercial income	**92**	126
	3,269	6,799

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2020	2019
Property rental income	**4,817**	4,833
Property management income	**237**	304
	5,054	5,137

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

	2020		2019	
in HK$ million	Revenue	Expenses*	Revenue	Expenses*
Melbourne Train	**10,308**	**10,280**	10,680	10,154
Sydney Metro North West	**681**	**752**	1,110	1,073
Sydney Metro City & Southwest	**1,493**	**1,474**	515	450
MTR Nordic**	**4,747**	**4,600**	4,862	4,832
TfL Rail/Elizabeth Line	**2,363**	**2,177**	2,037	1,899
Shenzhen Metro Line 4 ("SZL4")	**692**	**719**	761	599
Others	**1,144**	**893**	1,120	753
	21,428	**20,895**	21,085	19,760
Property development in Mainland of China	**–**	**13**	–	25
Total Mainland of China and international subsidiaries	**21,428**	**20,908**	21,085	19,785

* Expenses include staff costs of HK$9,260 million (2019: HK$9,006 million) (note 10A), maintenance and related work costs of HK$2,850 million (2019: HK$3,322 million) and energy and utilities of HK$782 million (2019: HK$876 million).

** MTR Nordic comprises the Stockholm Metro, MTR Tech, MTRX (formerly known as "MTR Express"), Stockholm Commuter Rail ("Stockholms pendeltåg") and Emtrain operations in Sweden.

8 Revenue from Other Businesses

Revenue from other businesses comprises income from:

in HK$ million	2020	2019
Ngong Ping 360	**65**	392
Consultancy business	**231**	184
Project management for HKSAR Government	**565**	935
Miscellaneous businesses	**33**	34
	894	1,545

9 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 domestic 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) ("High Speed Rail"), 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 spaces 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 spaces 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 HKSAR Government.

9 Segmental Information *(continued)*

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

in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates: Mainland of China and international railway, property rental and management businesses	Mainland of China and international affiliates: Mainland of China property development	Other businesses	Un-allocated amount	Total
2020									
Revenue from contracts with customers within the scope of HKFRS 15	11,896	1,262	315	–	21,289	–	886	–	35,648
– Recognised at a point in time	11,140	29	–	–	1,994	–	67	–	13,230
– Recognised over time	756	1,233	315	–	19,295	–	819	–	22,418
Revenue from other sources	–	2,007	4,739	–	139	–	8	–	6,893
– Lease payments that are fixed or depend on an index or a rate	–	1,971	4,664	–	137	–	7	–	6,779
– Variable lease payments that do not depend on an index or a rate	–	36	75	–	2	–	1	–	114
Total revenue	11,896	3,269	5,054	–	21,428	–	894	–	42,541
Operating expenses	(12,318)	(509)	(850)	–	(20,895)	(13)	(2,496)	–	(37,081)
Project study and business development expenses	–	–	–	–	(183)	–	–	(96)	(279)
Operating (loss)/profit before Hong Kong property development, depreciation, amortisation and variable annual payment	(422)	2,760	4,204	–	350	(13)	(1,602)	(96)	5,181
Profit on Hong Kong property development	–	–	–	6,491	–	–	–	–	6,491
Operating (loss)/profit before depreciation, amortisation and variable annual payment	(422)	2,760	4,204	6,491	350	(13)	(1,602)	(96)	11,672
Depreciation and amortisation	(4,810)	(197)	(18)	–	(272)	–	(68)	–	(5,365)
Variable annual payment	(176)	(61)	(1)	–	–	–	–	–	(238)
Share of profit of associates and joint venture	–	–	–	–	424	–	181	–	605
(Loss)/profit before interest, finance charges and taxation	(5,408)	2,502	4,185	6,491	502	(13)	(1,489)	(96)	6,674
Interest and finance charges	–	–	–	–	(62)	93	–	(1,035)	(1,004)
Investment property revaluation loss	–	–	(9,090)	–	(100)	–	–	–	(9,190)
Income tax	–	–	–	(1,049)	(41)	(15)	–	(196)	(1,301)
(Loss)/profit for the year ended 31 December 2020	(5,408)	2,502	(4,905)	5,442	299	65	(1,489)	(1,327)	(4,821)
Assets									
Fixed assets	124,355	2,928	85,532	–	7,473	58	586	–	220,932
Other segment assets *	6,610	587	911	3,412	9,739	4,447	1,760	14,709	42,175
Goodwill and property management rights	–	–	16	–	63	–	–	–	79
Property development in progress	–	–	–	11,942	–	–	–	–	11,942
Deferred expenditure	326	–	16	3	–	–	771	–	1,116
Deferred tax assets	–	2	–	–	443	–	25	–	470
Investments in securities	–	–	–	–	5	249	214	–	468
Properties held for sale	–	–	–	1,572	–	228	–	–	1,800
Interests in associates and joint venture	–	–	–	–	10,530	–	1,062	–	11,592
Total assets	131,291	3,517	86,475	16,929	28,253	4,982	4,418	14,709	290,574
Liabilities									
Segment liabilities	8,045	2,090	2,588	12,924	11,024	875	3,417	62,335	103,298
Obligations under service concession	10,114	–	–	–	181	–	–	–	10,295
Total liabilities	18,159	2,090	2,588	12,924	11,205	875	3,417	62,335	113,593
Other information									
Capital expenditure on:									
Fixed assets	5,928	497	3,516	–	249	–	30	–	10,220
Property development in progress	–	–	–	687	–	–	–	–	687

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates: Mainland of China and international railway, property rental and management businesses	Mainland of China and international affiliates: Mainland of China property development	Other businesses	Un-allocated amount	Total
2019									
Revenue from contracts with customers within the scope of HKFRS 15	19,938	2,026	304	–	20,902	–	1,529	–	44,699
– Recognised at a point in time	19,174	49	–	–	2,701	–	387	–	22,311
– Recognised over time	764	1,977	304	–	18,201	–	1,142	–	22,388
Revenue from other sources	–	4,773	4,833	–	183	–	16	–	9,805
– Lease payments that are fixed or depend on an index or a rate	–	4,511	4,702	–	182	–	14	–	9,409
– Variable lease payments that do not depend on an index or a rate	–	262	131	–	1	–	2	–	396
Total revenue	19,938	6,799	5,137	–	21,085	–	1,545	–	54,504
Operating expenses	(14,029)	(680)	(851)	–	(19,760)	(25)	(3,557)	–	(38,902)
Project study and business development expenses	–	–	–	–	(201)	–	–	(75)	(276)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	5,909	6,119	4,286	–	1,124	(25)	(2,012)	(75)	15,326
Profit on Hong Kong property development	–	–	–	5,707	–	–	–	–	5,707
Operating profit/(loss) before depreciation, amortisation and variable annual payment	5,909	6,119	4,286	5,707	1,124	(25)	(2,012)	(75)	21,033
Depreciation and amortisation	(4,728)	(192)	(16)	–	(236)	–	(65)	–	(5,237)
Variable annual payment	(1,772)	(805)	(6)	–	–	–	–	–	(2,583)
Share of profit of associates and joint venture	–	–	–	–	54	–	234	–	288
(Loss)/profit before interest, finance charges and taxation	(591)	5,122	4,264	5,707	942	(25)	(1,843)	(75)	13,501
Interest and finance charges	–	–	–	–	(57)	80	–	(882)	(859)
Investment property revaluation gain/(loss)	–	–	1,449	–	(77)	–	–	–	1,372
Income tax	–	–	–	(176)	(200)	(6)	–	(1,540)	(1,922)
(Loss)/profit for the year ended 31 December 2019	(591)	5,122	5,713	5,531	608	49	(1,843)	(2,497)	12,092
Assets									
Fixed assets	123,669	2,598	91,110	–	7,544	58	626	–	225,605
Other segment assets*	3,552	310	459	2,850	8,549	4,500	1,665	15,553	37,438
Goodwill and property management rights	–	–	21	–	56	–	–	–	77
Property development in progress	–	–	–	12,022	–	–	–	–	12,022
Deferred expenditure	140	–	7	–	–	–	1,801	–	1,948
Deferred tax assets	–	2	–	–	131	1	–	–	134
Investments in securities	–	–	–	–	–	–	386	–	386
Properties held for sale	–	–	–	1,034	–	211	–	–	1,245
Interests in associates and joint venture	–	–	–	–	9,335	–	1,024	–	10,359
Total assets	127,361	2,910	91,597	15,906	25,615	4,770	5,502	15,553	289,214
Liabilities									
Segment liabilities	11,694	2,126	2,379	10,434	9,449	864	3,162	51,958	92,066
Obligations under service concession	10,177	–	–	–	173	–	–	–	10,350
Total liabilities	21,871	2,126	2,379	10,434	9,622	864	3,162	51,958	102,416
Other information									
Capital expenditure on:									
Fixed assets	5,085	449	311	–	204	–	28	–	6,077
Property development in progress	–	–	–	3,819	–	–	–	–	3,819

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

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 2020, revenue from two customers (2019: one customer) of the Mainland of China and international railway, property rental and management businesses segment has exceeded 10% of the Group's revenue. Approximately 16.49% and 10.60% of the Group's total revenue was attributable to each of the two customers respectively (2019: Approximately 14.47% of the Group's total revenue was attributable to the 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 investment properties, other 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		Specified non-current assets	
in HK$ million	**2020**	2019	**2020**	2019
Hong Kong SAR (place of domicile)	**21,043**	33,357	**227,537**	233,019
Australia	**12,482**	12,305	**1,309**	941
Mainland of China and Macao SAR	**1,896**	1,934	**15,935**	15,155
Sweden	**4,747**	4,862	**819**	786
United Kingdom	**2,373**	2,046	**61**	110
	21,498	21,147	**18,124**	16,992
	42,541	54,504	**245,661**	250,011

As at 31 December 2020, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK$41,913 million (2019: HK$42,183 million). This amount represents revenue expected to be recognised in the future mainly from the fixed annual payments in relation to High Speed Rail under the SSCA-HSR, as well as the construction, consultancy and project management contracts entered into with the Group's customers. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next one to fifteen years.

The Group has applied the practical expedients in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from certain contracts with customers in existence at the reporting date that are billed based on the performance completed to date or have an original expected duration of one year or less.

10 Operating Expenses

A Total staff costs include:

in HK$ million	2020	2019
Amounts charged to consolidated profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**6,317**	6,489
– maintenance and related works for Hong Kong transport operations	**105**	117
– other expense line items for Hong Kong transport operations	**505**	304
– expenses relating to Hong Kong station commercial businesses	**120**	117
– expenses relating to Hong Kong property rental and management businesses	**147**	149
– expenses relating to Mainland of China and international subsidiaries	**9,260**	9,006
– expenses relating to other businesses	**884**	1,384
– project study and business development expenses	**212**	271
– profit on Hong Kong property development	**18**	24
Amounts capitalised under:		
– property development in progress	**204**	194
– assets under construction and other projects	**759**	733
– service concession assets	**449**	359
Amounts recoverable	**596**	602
Total staff costs	**19,576**	19,749

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2020	2019
Share-based payments	**121**	122
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**921**	907
Amounts recognised in respect of defined benefit retirement schemes	**451**	469
	1,493	1,498

B Auditors' remuneration charged to the consolidated profit and loss account include:

in HK$ million	2020	2019
Audit services	**19**	19
Tax services	**2**	2
Other audit related services	**6**	6
	27	27

C Loss on disposal of fixed assets of HK$104 million (2019: HK$57 million) is included in operating expenses.

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2020					
Members of the Board					
– Rex Auyeung Pak-kuen	**1.6**	**–**	**–**	**–**	**1.6**
– Andrew Clifford Winawer Brandler	**0.5**	**–**	**–**	**–**	**0.5**
– Bunny Chan Chung-bun (appointed on 20 May 2020)**	**0.2**	**–**	**–**	**–**	**0.2**
– Walter Chan Kar-lok	**0.4**	**–**	**–**	**–**	**0.4**
– Pamela Chan Wong Shui	**0.5**	**–**	**–**	**–**	**0.5**
– Dorothy Chan Yuen Tak-fai	**0.5**	**–**	**–**	**–**	**0.5**
– Cheng Yan-kee	**0.5**	**–**	**–**	**–**	**0.5**
– Anthony Chow Wing-kin	**0.4**	**–**	**–**	**–**	**0.4**
– Eddy Fong Ching	**0.5**	**–**	**–**	**–**	**0.5**
– James Kwan Yuk-choi	**0.4**	**–**	**–**	**–**	**0.4**
– Rose Lee Wai-mun	**0.4**	**–**	**–**	**–**	**0.4**
– Lucia Li Li Ka-lai	**0.4**	**–**	**–**	**–**	**0.4**
– Jimmy Ng Wing-ka	**0.4**	**–**	**–**	**–**	**0.4**
– Benjamin Tang Kwok-bun	**0.4**	**–**	**–**	**–**	**0.4**
– Allan Wong Chi-yun (retired on 20 May 2020)*	**0.2**	**–**	**–**	**–**	**0.2**
– Johannes Zhou Yuan	**0.4**	**–**	**–**	**–**	**0.4**
– James Henry Lau Jr (resigned on 1 June 2020)	**0.2**	**–**	**–**	**–**	**0.2**
– Christopher Hui Ching-yu (appointed on 1 June 2020)	**0.2**	**–**	**–**	**–**	**0.2**
– Secretary for Transport and Housing	**0.4**	**–**	**–**	**–**	**0.4**
– Permanent Secretary for Development (Works)	**0.4**	**–**	**–**	**–**	**0.4**
– Commissioner for Transport	**0.4**	**–**	**–**	**–**	**0.4**
Members of the Executive Directorate					
– Jacob Kam Chak-pui	**–**	**8.0**	**1.2**	**0.8**	**10.0**
– Adi Lau Tin-shing	**–**	**5.6**	**–**~	**0.3**	**5.9**
– Roger Francis Bayliss	**–**	**4.6**	**–**~~	**0.3**	**4.9**
– Margaret Cheng Wai-ching	**–**	**5.2**	**0.7**	**0.3**	**6.2**
– Linda Choy Siu-min (appointed on 2 March 2020)****	**–**	**3.2**	**0.5**	**0.2**	**3.9**
– Peter Ronald Ewen (retired on 22 February 2021)	**–**	**4.3**	**0.7**	**0.2**	**5.2**
– Herbert Hui Leung-wah	**–**	**4.8**	**0.7**	**0.3**	**5.8**
– Tony Lee Kar-yun (appointed on 1 January 2020)****	**–**	**4.2**	**0.7**	**0.2**	**5.1**
– Gillian Elizabeth Meller	**–**	**4.3**	**0.7**	**0.3**	**5.3**
– Linda So Ka-pik (resigned on 16 January 2020)***	**–**	**0.5**	**–**~~~	**–**~~~	**0.5**
– David Tang Chi-fai	**–**	**4.8**	**0.7**	**0.3**	**5.8**
– Jeny Yeung Mei-chun	**–**	**4.7**	**0.7**	**0.3**	**5.7**
	9.3	**54.2**	**6.6**	**3.5**	**73.6**

* Allan C Y Wong retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2020 to the date of his retirement.

** Bunny C B Chan was appointed as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from the date of his appointment to 31 December 2020.

*** Linda K P So resigned as a Member of the Executive Directorate on the date shown in the above table. The amount of her emolument shown in the above table covers the period from 1 January 2020 to the date of her resignation.

**** Linda S M Choy and Tony K Y Lee were appointed as Members of the Executive Directorate on the date shown in the above table. The amounts of their emolument shown in the above table cover the period from the dates of their respective dates of appointment to 31 December 2020.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2020 for Adi T S Lau, who participated in MTR Retirement Scheme was HK$20,475, pursuant to the requirement of the scheme.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2020 for Roger F Bayliss, who participated in Mandatory Provident Fund Scheme was HK$18,000.

~~~ The total contributions under MTR Provident Fund Scheme paid by the Company and the pro-rated variable remuneration related to performance for the period from 1 January 2020 to the date of resignation for Linda K P So was HK$24,024 and HK$10,174 respectively.

All Members of the Board except Bunny Chan Chung-bun (appointed on 20 May 2020) and Christopher Hui Ching-yu (appointed on 1 June 2020) agreed to waive HK$25,000 of each of their director fees for the year ended 31 December 2020. The aggregate amount of such remuneration waived was donated by the Company for charity use. The amounts waived are excluded from the above table.

All Members of the Executive Directorate except Linda So Ka-pik (resigned on 16 January 2020) agreed to waive a portion of their remuneration for the year ended 31 December 2020 (HK$566,040 for Jacob Kam Chak-pui, HK$378,000 for Adi Lau Tin-shing, HK$329,220 for Roger Francis Bayliss, HK$326,400 for Margaret Cheng Wai-ching, HK$270,000 for Linda Choy Siu-min, HK$299,580 for Peter Ronald Ewen, HK$325,560 for Herbert Hui Leung-wah, HK$282,000 for Tony Lee Kar-yun, HK$309,120 for Gillian Elizabeth Meller, HK$345,600 for David Tang Chi-fai and HK$337,320 for Jeny Yeung Mei-chun). The aggregate amount of such remuneration waived was donated by the Company for charity use. The amounts waived are excluded from the above table.
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11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2019					
Members of the Board					
– Frederick Ma Si-hang (retired on 1 July 2019)#	0.9	–	–	–	0.9
– Rex Auyeung Pak-kuen (appointed on 7 March 2019)##	0.9	–	–	–	0.9
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Walter Chan Kar-lok (appointed on 22 May 2019)##	0.2	–	–	–	0.2
– Pamela Chan Wong Shui	0.4	–	–	–	0.4
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Cheng Yan-kee (appointed on 22 May 2019)##	0.3	–	–	–	0.3
– Vincent Cheng Hoi-chuen (retired on 22 May 2019)#	0.2	–	–	–	0.2
– Anthony Chow Wing-kin	0.5	–	–	–	0.5
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.5	–	–	–	0.5
– Kaizer Lau Ping-cheung (retired on 22 May 2019)#	0.2	–	–	–	0.2
– Rose Lee Wai-mun	0.4	–	–	–	0.4
– Lucia Li Li Ka-lai	0.5	–	–	–	0.5
– Jimmy Ng Wing-ka (appointed on 22 May 2019)##	0.3	–	–	–	0.3
– Abraham Shek Lai-him (retired on 22 May 2019)#	0.2	–	–	–	0.2
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun	0.5	–	–	–	0.5
– Johannes Zhou Yuan	0.5	–	–	–	0.5
– James Henry Lau Jr	0.4	–	–	–	0.4
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen (retired on 1 April 2019)###	–	4.4	0.3	–	4.7
– Jacob Kam Chak-pui	–	8.1	1.2	1.4	10.7
– Roger Francis Bayliss (appointed on 18 March 2019)####	–	4.0	–^	0.6	4.6
– Margaret Cheng Wai-ching	–	5.0	0.7	0.8	6.5
– Peter Ronald Ewen	–	4.5	0.6	0.7	5.8
– Herbert Hui Leung-wah	–	5.0	0.7	0.7	6.4
– Adi Lau Tin-shing	–	5.1	–^^	0.9	6.0
– Gillian Elizabeth Meller	–	4.5	0.7	0.7	5.9
– Linda So Ka-pik	–	4.5	0.6	0.7	5.8
– David Tang Chi-fai	–	5.1	0.7	0.8	6.6
– Jeny Yeung Mei-chun	–	4.9	0.7	0.8	6.4
	10.0	55.1	6.2	8.1	79.4

Frederick S H Ma, Vincent H C Cheng, Kaizer P C Lau and Abraham L H Shek retired as Members of the Board on the date shown in the above table. The amounts of their emolument shown in the above table cover the period from 1 January 2019 to the respective dates of retirement.

Rex P K Auyeung, Walter K L Chan, Cheng Y K and Jimmy W K Ng were appointed as Members of the Board on the date shown in the above table. The amounts of their emolument shown in the above table covers the period from the date of their respective dates of appointment to 31 December 2019.

Lincoln K K Leong retired as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2019 to his retirement date. Lincoln K K Leong agreed to waive his variable remuneration related to performance in 2019 of approximately HK$6,613,020.

Roger F Bayliss was appointed as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from the date of his appointment to 31 December 2019.

^ The total contributions paid by the Company attributable to the financial year ended 31 December 2019 for Roger F Bayliss, who participated in Mandatory Provident Fund Scheme was HK$15,000.

^^ The total contributions paid by the Company attributable to the financial year ended 31 December 2019 for Adi T S Lau, who participated in MTR Retirement Scheme was nil, pursuant to the requirement of the scheme.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

The above emoluments do not include the fair value of Award Shares granted under the Executive Share Incentive Scheme.

The director's fees in respect of the office of the Secretary for Transport and Housing (Frank Chan Fan), the office of the Permanent Secretary for Development (Works) (Lam Sai-hung) and the office of the Commissioner for Transport (Mable Chan for the period from 1 January 2020 to 31 July 2020 and Rosanna Law Shuk-pui for the period from 9 September 2020 to 31 December 2020), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance ("MTR Ordinance"), were received by Government rather than by the individuals concerned.

The director's fee in respect of James Henry Lau Jr (for the period from 1 January 2020 to 31 May 2020) and Christopher Hui Ching-yu (for the period from 1 June 2020 to 31 December 2020), being the Secretary for Financial Services and the Treasury of Government for the respective periods, was received by Government rather than by the individuals personally.

Alternate Directors were not entitled to director's fees.

(ii) Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members of the Executive Directorate with vesting periods falling in the years ended 31 December 2019 and 2020, if any, are as follows:

- Jacob C P Kam was granted 21,550 Restricted Shares on 8 April 2016, 22,050 Restricted Shares on 10 April 2017, 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 120,000 Contract-end Restricted Shares on 1 April 2019, 47,400 Restricted Shares and 91,750 Performance Shares on 8 April 2019, and 89,300 Restricted Shares on 8 April 2020, of which a total of 31,666 Restricted Shares were vested in 2020 (2019: 23,050 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$7.6 million (2019: HK$5.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Adi T S Lau was granted 8,400 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017, 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,250 Restricted Shares on 8 April 2019 and 39,100 Restricted Shares on 8 April 2020, of which a total of 16,799 Restricted Shares were vested in 2020 (2019: 14,183 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.9 million (2019: HK$1.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Roger Francis Bayliss was granted 30,150 Performance Shares on 8 April 2019 and 30,250 Restricted Shares on 8 April 2020, of which nil was vested in 2020 (2019: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.3 million (2019: HK$0.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016, 16,950 Restricted Shares on 10 April 2017, 17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,550 Restricted Shares on 8 April 2019 and 32,450 Restricted Shares on 8 April 2020, of which a total of 17,032 Restricted Shares were vested in 2020 (2019: 35,326 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.8 million (2019: HK$1.7 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Peter Ronald Ewen was granted 15,050 Restricted Shares on 10 April 2017, 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 12,500 Restricted Shares on 8 April 2019 and 26,500 Restricted Shares on 8 April 2020, of which 13,267 Restricted Shares were vested in 2020 (2019: 9,099 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.6 million (2019: HK$1.3 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Herbert L W Hui was granted 15,200 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,800 Restricted Shares on 8 April 2019 and 29,050 Restricted Shares on 8 April 2020, of which 14,401 Restricted Shares were vested in 2020 (2019: 9,799 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.6 million (2019: HK$1.3 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Tony K Y Lee was granted 7,150 Restricted Shares on 8 April 2016, 6,800 Restricted Shares on 10 April 2017, 7,900 Restricted Shares and 10,500 Performance Shares on 10 April 2018, 8,300 Restricted Shares on 8 April 2019 and 15,500 Restricted Shares on 8 April 2020, of which a total of 7,667 Restricted Shares were vested in 2020 (2019: 7,283 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$0.6 million. No award shares were lapsed/forfeited in 2020;
- Gillian E Meller was granted 17,300 Restricted Shares on 8 April 2016, 16,200 Restricted Shares on 10 April 2017, 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,400 Restricted Shares on 8 April 2019 and 27,000 Restricted Shares on 8 April 2020, of which a total of 15,216 Restricted Shares were vested in 2020 (2019: 16,518 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.6 million (2019: HK$1.4 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Linda K P So was granted 16,400 Restricted Shares on 8 April 2016, 15,300 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 14,800 Restricted Shares on 8 April 2019, of which nil was vested in 2020 (2019: 15,301 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2019 was HK$1.4 million. 79,817 award shares were lapsed/forfeited in 2020 (2019: nil);
- David C F Tang was granted 17,950 Restricted Shares on 8 April 2016, 17,250 Restricted Shares on 10 April 2017, 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 17,200 Restricted Shares on 8 April 2019 and 31,350 Restricted Shares on 8 April 2020, of which a total of 17,099 Restricted Shares were vested in 2020 (2019: 17,350 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.8 million (2019: HK$1.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- Jeny M C Yeung was granted 18,850 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017, 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,350 Restricted Shares on 8 April 2019 and 32,650 Restricted Shares on 8 April 2020, of which a total of 17,133 Restricted Shares were vested in 2020 (2019: 17,967 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK$1.8 million (2019: HK$1.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil); and
- Lincoln K K Leong was granted 64,850 Restricted Shares on 8 April 2016, 63,900 Restricted Shares on 10 April 2017, 80,000 Contract-end Restricted Shares on 16 March 2018 and 73,300 Restricted Shares and 239,950 Performance Shares on 10 April 2018, of which a total of 217,518 Restricted Shares were vested in 2019, and the respective fair value of the share-based payments recognised for the year ended 31 December 2019 was HK$6.5 million. No award shares were lapsed/forfeited in 2019.

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2020 (2019: nil).

The details of Board Members' and Members of the Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 41.

(iii) For the year ended 31 December 2020, two (2019: three) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK$ million	2020	2019
Base pay, allowances and benefits in kind	**29.6**	30.1
Variable remuneration related to performance	**2.0**	6.2
Retirement scheme contributions	**4.3**	2.6
	35.9	38.9

The emoluments of the top 5 highest paid individuals for the year are within the following bands:

	2020	2019
HK$6,000,001 – HK$6,500,000	**3**	1
HK$6,500,001 – HK$7,000,000	**–**	2
HK$7,000,001 – HK$7,500,000	**1**	–
HK$8,000,001 – HK$8,500,000	**–**	1
HK$10,000,001 – HK$10,500,000	**1**	–
HK$10,500,001 – HK$11,000,000	**–**	1
	5	5

(iv) The aggregate emoluments and share-based payments of Members of the Board and the Executive Directorate for the year was HK$95.2 million (2019: HK$103.5 million).

(v) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (excluding three additional directors appointed pursuant to Section 8 of the MTR Ordinance) specifying the terms of his/her continuous appointments as an INED/a NED and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association where applicable. Dr Rex P K Auyeung was appointed by the Financial Secretary Incorporated ("FSI") as non-executive Chairman of the Company for a term commencing from 1 July 2019 until 31 December 2021 (both dates inclusive).

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2020 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 41(i), all Members of the Executive Directorate were granted options to acquire shares between 2007 and 2014. No grant was made after the scheme's expiry date on 6 June 2014.

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options. As all the share options granted to each Member of the Executive Directorate were vested prior to 2018, the respective fair value of the share based payments recognised for the year ended 31 December 2020 was HK$nil (2019: HK$nil).

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2020 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 41(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions, as determined by the Remuneration Committee from time to time.

An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved.

12 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	2020	2019
Share of surplus, income and interest in unsold properties from property development	**6,481**	4,376
Income from receipt of properties for investment purpose	**–**	1,211
Agency fee and other income from West Rail property development (note 22C)	**42**	182
Overheads and miscellaneous studies	**(32)**	(62)
	6,491	5,707

During the year ended 31 December 2020, profit attributable to joint operations of HK$6,481 million (2019: HK$5,587 million) was recognised.

13 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2020	2019
Depreciation charge relating to:		
– Owned property, plant and equipment	**3,788**	3,865
– Right-of-use assets	**357**	332
	4,145	4,197
Amortisation charge:		
– Amortisation charge relating to service concession assets and other intangible assets	**1,601**	1,439
– Utilisation of government subsidy for SZL4 operation	**(381)**	(399)
	1,220	1,040
	5,365	5,237

14 Interest and Finance Charges

in HK$ million	2020	2020	2019	2019
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**1,001**		1,053	
– Obligations under service concession	**696**		700	
– Lease liabilities	**56**		58	
– Others	**25**		23	
Finance charges	**52**		42	
Exchange loss/(gain)	**234**		(53)	
		2,064		1,823
Utilisation of government subsidy for SZL4 operation		**(58)**		(70)
Derivative financial instruments:				
– Fair value hedges	**2**		1	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(21)**		(32)	
– transferred from hedging reserve to offset exchange (loss)/gain	**(240)**		69	
– Hedge of net investments:				
– ineffective portion	**–**		(1)	
– Derivatives not adopted hedge accounting	**1**		–	
		(258)		37
Interest expenses capitalised		**(360)**		(449)
		1,388		1,341
Interest income in respect of:				
– Deposits with banks	**(348)**		(466)	
– Others	**(36)**		(16)	
		(384)		(482)
		1,004		859

During the year ended 31 December 2020, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.0% to 2.9% per annum (2019: 2.5% to 2.9% per annum).

During the year ended 31 December 2020, interest and finance charges net of interest expenses capitalised in relation to the SZL4 were HK$58 million (2019: HK$70 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2020, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged under fair value hedge was HK$140 million (2019: HK$45 million) while the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$138 million (2019: HK$44 million), thus resulting in a net loss of HK$2 million (2019: HK$1 million).

15 Income Tax in the Consolidated Profit and Loss Account

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2020	2019
Current tax		
– Hong Kong Profits Tax	**958**	1,191
– Tax outside Hong Kong	**328**	264
	1,286	1,455
Less: Utilisation of government subsidy for SZL4 operation	**(28)**	(71)
	1,258	1,384
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(20)**	(1)
– depreciation allowances in excess of related depreciation	**356**	620
– revaluation of properties	**(1)**	(5)
– provisions and others	**(292)**	(76)
	43	538
	1,301	1,922

Except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong, the provision for Hong Kong Profits Tax for the year ended 31 December 2020 is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Under the two-tiered Profits Tax rate regime, the Company's 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 2020 and 2019.

Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2019: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company purchased tax reserve certificates in connection with the tax deductibility of certain payments relating to the Rail Merger. Please refer to note 29 to the consolidated accounts for details.

B Reconciliation between tax expense and accounting profit or loss at applicable tax rates:

	2020		2019	
	HK$ million	%	HK$ million	%
(Loss)/profit before taxation	**(3,520)**		14,014	
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(728)**	**(20.7)**	2,330	16.6
Tax effect of non-deductible expenses	**2,232**	**63.4**	1,241	8.8
Tax effect of non-taxable revenue	**(207)**	**(5.9)**	(1,562)	(11.1)
Tax effect of unused tax losses not recognised	**32**	**0.9**	(16)	(0.1)
Utilisation of government subsidy for SZL4 operation	**(28)**	**(0.8)**	(71)	(0.5)
Actual tax expenses	**1,301**	**36.9**	1,922	13.7

16 Dividends

During the year, ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	2020	2019
Ordinary dividends attributable to the year		
– Interim ordinary dividend declared of HK$0.25 (2019: HK$0.25) per share	**1,545**	1,539
– Final ordinary dividend proposed after the end of the reporting period of HK$0.98 (2019: HK$0.98) per share	**6,057**	6,035
	7,602	7,574
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK$0.98 (2019: HK$0.95 per share attributable to year 2018) per share approved and payable/paid during the year	**6,036**	5,835

The final ordinary dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

For 2020 final ordinary dividend, the Board proposed that a scrip dividend option will be offered to all shareholders of the Company whose names appeared on the register of members of the Company as at the close of business on 4 June 2021 (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions).

Details of ordinary dividends paid to the Financial Secretary Incorporated are disclosed in note 44O.

17 (Loss)/Earnings Per Share

A Basic (Loss)/Earnings Per Share

The calculation of basic (loss)/earnings per share is based on the loss for the year attributable to shareholders of HK$4,809 million (2019: profit of HK$11,932 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2020	2019
Issued ordinary shares at 1 January	**6,157,948,911**	6,139,485,589
Effect of scrip dividend issued	**8,968,601**	6,682,480
Effect of share options exercised	**1,399,931**	2,130,711
Less: Shares held for Executive Share Incentive Scheme	**(5,787,780)**	(5,752,047)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,162,529,663**	6,142,546,733

B Diluted (Loss)/Earnings Per Share

The calculation of diluted (loss)/earnings per share is based on the loss for the year attributable to shareholders of HK$4,809 million (2019: profit of HK$11,932 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	2020	2019
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,162,529,663**	6,142,546,733
Effect of dilutive potential shares under the share option scheme	–	2,218,657
Effect of shares awarded under Executive Share Incentive Scheme	–	5,759,306
Weighted average number of shares (diluted) at 31 December	**6,162,529,663**	6,150,524,696

The effect of the Group's share option scheme (1,055,658 shares) and Executive Share Incentive Scheme (5,836,013 shares) are anti-dilutive for the year ended 31 December 2020 since they would result in a decrease in the loss per share.

C Both basic and diluted earnings per share would have been HK$0.71 (2019: HK$1.72), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$4,381 million (2019: HK$10,560 million).

18 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

in HK$ million	2020 Before-tax amount	2020 Tax benefit/ (expense)	2020 Net-of-tax amount	2019 Before-tax amount	2019 Tax (expense)	2019 Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries, associates and joint venture	**1,282**	**–**	**1,282**	(344)	–	(344)
– Non-controlling interests	**13**	**–**	**13**	(15)	–	(15)
	1,295	**–**	**1,295**	(359)	–	(359)
(Loss)/surplus on revaluation of self-occupied land and buildings	**(328)**	**54**	**(274)**	145	(24)	121
Remeasurement of net asset/liability of defined benefit schemes	**893**	**(141)**	**752**	869	(139)	730
Cash flow hedges: net movement in hedging reserve (note 18B)	**(87)**	**14**	**(73)**	292	(48)	244
Other comprehensive income	**1,773**	**(73)**	**1,700**	947	(211)	736

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

in HK$ million	2020	2019
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**174**	255
Amounts (credited)/charged to profit or loss:		
– Interest and finance charges (note 14)	**(261)**	37
	(87)	292
Tax effect resulting from:		
– Effective portion of changes in fair value of hedging instruments recognised during the year	**(29)**	(42)
– Amounts charged/(credited) to profit or loss	**43**	(6)
	(73)	244

19 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Movements and analysis of the Group's investment properties, all of which being held in Hong Kong and Mainland of China and carried at fair value, are as follows:

in HK$ million	2020	2019
At 1 January	**91,712**	83,037
Additions	**3,501**	7,316
Change in fair value	**(9,190)**	1,372
Exchange gain/(loss)	**35**	(13)
At 31 December	**86,058**	91,712

All investment properties of the Group were revalued at 31 December 2020 and 2019. Details of the fair value measurement are disclosed in note 40. The net decrease in fair value of HK$9,190 million (2019: net increase of HK$1,372 million) arising from the revaluation has been debited (2019: credited) to the consolidated profit and loss account. Investment properties in Hong Kong and Mainland of China are revalued semi-annually by Colliers International (Hong Kong) Limited (2019: Jones Lang LaSalle Limited) and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through consolidated profit and loss account in subsequent periods.

Included in the Group's investment properties as at 31 December 2020 was HK$605 million (2019: HK$670 million) relating to properties in Mainland of China.

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

B Other Property, Plant and Equipment

in HK$ million	Leasehold land	Self-occupied buildings	Civil works	Plant and equipment	Assets under construction	Total
2020						
Cost or Valuation						
At 1 January 2020	**1,765**	**4,650**	**62,378**	**88,175**	**6,835**	**163,803**
Additions	**–**	**30**	**3**	**348**	**3,401**	**3,782**
Disposals/write-offs	**–**	**(1)**	**–**	**(544)**	**(3)**	**(548)**
Loss on revaluation	**–**	**(480)**	**–**	**–**	**–**	**(480)**
Transfer to additional concession property (note 20)	**–**	**–**	**(4)**	**1**	**(8)**	**(11)**
Other assets commissioned	**–**	**–**	**76**	**1,798**	**(1,874)**	**–**
Exchange differences	**–**	**23**	**–**	**195**	**4**	**222**
At 31 December 2020	**1,765**	**4,222**	**62,453**	**89,973**	**8,355**	**166,768**
At Cost	**1,765**	**475**	**62,453**	**89,973**	**8,355**	**163,021**
At 31 December 2020 Valuation	**–**	**3,747**	**–**	**–**	**–**	**3,747**
Aggregate depreciation						
At 1 January 2020	**374**	**74**	**9,388**	**51,335**	**–**	**61,171**
Charge for the year	**34**	**233**	**521**	**3,357**	**–**	**4,145**
Written back on disposals	**–**	**(1)**	**–**	**(491)**	**–**	**(492)**
Written back on revaluation	**–**	**(152)**	**–**	**–**	**–**	**(152)**
Exchange differences	**–**	**4**	**–**	**93**	**–**	**97**
At 31 December 2020	**408**	**158**	**9,909**	**54,294**	**–**	**64,769**
Net book value at 31 December 2020	**1,357**	**4,064**	**52,544**	**35,679**	**8,355**	**101,999**
2019						
Cost or Valuation						
At 1 January 2019	1,757	4,597	62,385	86,824	5,115	160,678
Additions	–	60	–	292	3,173	3,525
Disposals/write-offs	–	–	(2)	(315)	(6)	(323)
Loss on revaluation	–	(7)	–	–	–	(7)
Transfer to stores and spares	–	–	–	(12)	–	(12)
Transfer to additional concession property (note 20)	–	–	–	(4)	(2)	(6)
Other assets commissioned	8	–	(5)	1,441	(1,444)	–
Exchange differences	–	–	–	(51)	(1)	(52)
At 31 December 2019	1,765	4,650	62,378	88,175	6,835	163,803
At Cost	1,765	423	62,378	88,175	6,835	159,576
At 31 December 2019 Valuation	–	4,227	–	–	–	4,227
Aggregate depreciation						
At 1 January 2019	340	–	8,865	48,206	–	57,411
Charge for the year	34	226	523	3,414	–	4,197
Written back on disposals	–	–	–	(270)	–	(270)
Written back on revaluation	–	(152)	–	–	–	(152)
Exchange differences	–	–	–	(15)	–	(15)
At 31 December 2019	374	74	9,388	51,335	–	61,171
Net book value at 31 December 2019	1,391	4,576	52,990	36,840	6,835	102,632

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

in HK$ million	Note	31 December 2020	31 December 2019
Ownership interests in leasehold land held for own use, with remaining lease term of:	(i)		
– less than 50 years		**1,357**	1,391
Ownership interests in self-occupied buildings held for own use, with remaining lease term of:	(i)		
– less than 50 years		**3,747**	4,227
Other self-occupied buildings leased for own use, with remaining lease term of:	(ii)		
– less than 10 years		**317**	349
Plant and equipment, with remaining lease term of:	(iii)		
– less than 10 years		**507**	503
		5,928	6,470
Ownership interests in leasehold investment property, with remaining lease term of:			
– 50 years or more		**14**	15
– less than 50 years		**85,801**	91,412
		85,815	91,427
Other leasehold investment property, with remaining lease term of:			
– less than 10 years		**243**	285
		86,058	91,712
		91,986	98,182

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

in HK$ million	2020	2019
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land held for own use	**34**	34
Ownership interests in self-occupied buildings held for own use	**152**	152
Other self-occupied buildings leased for own use	**81**	74
Plant and equipment	**90**	72
	357	332
Interest on lease liabilities	**56**	58
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December	**14**	37
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**22**	22

During the year, additions to right-of-use assets were HK$3,566 million (2019: HK$7,438 million). This amount primarily related to additions of investment properties.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 39C and 32D, respectively.

(i) Ownership Interests in Leasehold Land and Buildings Held for Own Use

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 44A, 44B and 44C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

All self-occupied buildings of the Group in Hong Kong are carried at fair value. The details of the fair value measurement are disclosed in note 40. The revaluation loss of HK$328 million (2019: surplus of HK$145 million) and the related deferred tax credit of HK$54 million (2019: expenses of HK$24 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 38D). The carrying amount of the self-occupied buildings at 31 December 2020 would have been HK$665 million (2019: HK$692 million) had the buildings been stated at cost less accumulated depreciation.

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets *(continued)*

(ii) Other Self-occupied Buildings Leased for Own Use

The Group has obtained the right to use other properties as its offices through tenancy agreements. The leases typically run for an initial period of 4 to 7 years.

(iii) Other Leases

The Group leases plant and equipment under leases expiring from 2 to 20 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

D Properties Leased Out under Operating Leases

The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amount of investment properties of the Group held for use in operating leases were HK$86,058 million (2019: HK$84,624 million). The costs of station kiosks of the Group held for use in operating leases were HK$818 million (2019: HK$775 million) and the related accumulated depreciation charges were HK$519 million (2019: HK$493 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

in HK$ million	**2020**	2019
Within 1 year	**8,436**	8,466
After 1 year but within 2 years	**6,038**	6,629
After 2 years but within 3 years	**2,666**	4,234
After 3 years but within 4 years	**1,440**	985
After 4 years but within 5 years	**1,077**	305
After 5 years	**1,903**	341
	21,560	20,960

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

20 Service Concession Assets

Movements and analysis of the Group's service concession assets are as follows:

in HK$ million	KCRC Rail Merger: Initial concession property	KCRC Rail Merger: Additional concession property	Additional concession property (High Speed Rail)	Additional concession property (Tuen Ma Line)	Shenzhen Metro Line 4	MTR Nordic	TfL Rail/ Elizabeth Line	Total
2020								
Cost								
At 1 January 2020	**15,226**	**17,582**	**51**	**–**	**8,460**	**76**	**58**	**41,453**
Net additions during the year	**–**	**2,741**	**129**	**10**	**57**	**–**	**–**	**2,937**
Disposals	**–**	**(97)**	**–**	**–**	**(91)**	**–**	**–**	**(188)**
Transfer from other property, plant and equipment (note 19)	**–**	**3**	**–**	**8**	**–**	**–**	**–**	**11**
Reclassification within service concession assets	**–**	**(9)**	**–**	**9**	**–**	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**	**–**	**511**	**10**	**2**	**523**
At 31 December 2020	**15,226**	**20,220**	**180**	**27**	**8,937**	**86**	**60**	**44,736**
Accumulated amortisation								
At 1 January 2020	**3,680**	**3,509**	**–**	**–**	**2,903**	**63**	**37**	**10,192**
Charge for the year	**305**	**894**	**4**	**1**	**384**	**2**	**6**	**1,596**
Written-off on disposals	**–**	**(82)**	**–**	**–**	**(53)**	**–**	**–**	**(135)**
Exchange differences	**–**	**–**	**–**	**–**	**198**	**9**	**1**	**208**
At 31 December 2020	**3,985**	**4,321**	**4**	**1**	**3,432**	**74**	**44**	**11,861**
Net book value at 31 December 2020	**11,241**	**15,899**	**176**	**26**	**5,505**	**12**	**16**	**32,875**
2019								
Cost								
At 1 January 2019	15,226	15,397	1	–	8,587	84	56	39,351
Net additions during the year	–	2,232	50	–	75	–	–	2,357
Disposals	–	(53)	–	–	(45)	(4)	–	(102)
Transfer from other property, plant and equipment (note 19)	–	6	–	–	–	–	–	6
Exchange differences	–	–	–	–	(157)	(4)	2	(159)
At 31 December 2019	15,226	17,582	51	–	8,460	76	58	41,453
Accumulated amortisation								
At 1 January 2019	3,375	2,825	–	–	2,584	65	29	8,878
Charge for the year	305	719	–	–	401	2	7	1,434
Written-off on disposals	–	(35)	–	–	(27)	(1)	–	(63)
Exchange differences	–	–	–	–	(55)	(3)	1	(57)
At 31 December 2019	3,680	3,509	–	–	2,903	63	37	10,192
Net book value at 31 December 2019	11,546	14,073	51	–	5,557	13	21	31,261

SZL4 forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. In July 2020, the Shenzhen Municipal Government has publicised a fare adjustment framework for Shenzhen Metro network which will take effect on 1 January 2021. The framework sets out the mechanism of fare setting and the procedures of fare adjustment. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 31 December 2020. If a suitable fare adjustment mechanism is not put in place, the long-term financial viability of SZL4 is expected to be impacted.

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the upgrade of the initial concession property after inception of the Rail Merger. Additional concession property (High Speed Rail) and additional concession property (Tuen Ma Line) relate to the expenditures for the upgrade of the concession property of High Speed Rail and Tuen Ma Line respectively.

21 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 of 31 December 2020, the Company had received full payment of the HSR Project Management Fee from the HKSAR Government.

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 the HSR Entrustment Agreement (as more particularly described in note 21A(c)(iv) below), up to the date of this 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 would be 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 21A(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 21A(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;

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(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 the 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
- 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 supplemental service concession agreement for the HSR ("**SSCA-HSR**") to supplement the Service Concession Agreement 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 21A(c)(ii) above).

(f) The Company has not made any provision in its consolidated 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 21A(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 2020 and up to the date of this 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).

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(g) During the year ended 31 December 2020, HSR Project Management Fee of HK$nil (2019: HK$78 million) was recognised in the consolidated profit and loss account. As at 31 December 2020, 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 2019: HK$6,548 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 consolidated profit and loss account in the prior years.

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 EA2 Advance Works Costs and the Interface Works Costs (as described below) are payable by the HKSAR Government to the Company. During the year ended 31 December 2020, HK$122 million (2019: HK$343 million) of costs were incurred by the Company, which are payable by the HKSAR Government. As at 31 December 2020, the amount of such costs which remained outstanding from the HKSAR Government was HK$1,035 million (as at 31 December 2019: HK$1,219 million).

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, was 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 project management fee of HK$7,893 million (the "**Original PMC**"). As at 31 December 2020 and up to the date of this 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 2020, Original PMC of HK$565 million (2019: HK$857 million) was recognised in the consolidated profit and loss account. As at 31 December 2020, the total Original PMC recognised to date in the consolidated profit and loss account amounted to HK$7,893 million (as at 31 December 2019: HK$7,328 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, including an increase in the project management fee payable to the Company ("**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 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 21B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company has already recognised a provision of HK$2 billion in its consolidated profit and loss account for the year ended 31 December 2019 (as detailed in note 21B(c)(iii) 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 issued its paper on 18 March 2020 to seek the approval of Legislative Council for additional funding required for the SCL Project amounting to HK$10,801 million ("**Additional Funding**") so that the SCL can be completed. On 12 June 2020, the Legislative Council approved the Additional Funding for the SCL Project. For the avoidance of doubt, the Additional Funding sought by the HKSAR Government and approved by the Legislative Council excluded the Hung Hom Incidents Related Costs (as detailed in note 21B(c)(iii) below) and any Additional PMC for the Company as further detailed in note 21B(b)(ii) below.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(ii) Additional PMC

As detailed in note 21B(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. 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, which is estimated to be around HK$1,371 million.

By December 2020, the aggregate amount of project management fee paid by the HKSAR Government to the Company in accordance with the payment schedule contained in the SCL EA3 was substantially close to the Original PMC (excluding, for the avoidance of doubt, the Additional PMC of HK$1,371 million previously sought by the Company) and has been expended in full by the Company. The Additional Funding approved by the Legislative Council did not include any Additional PMC for the Company which the Company had previously sought from the HKSAR Government. Therefore, the cost to the Company of continuing to comply with its project management obligations under the SCL EA3 is currently being met by the Company on an interim and without prejudice basis (to allow the SCL Project to progress in accordance with the latest programme) and the Company reserves its position as to the ultimate liability for such costs and as to its right to pursue the courses of action and remedies available under the SCL EA3.

However, given the Company's view that there has been a significant delay to the project programme and associated increase in project management costs to the Company, the Company has recently written to the HKSAR Government to restate the Company's belief that the Company is entitled (in accordance with the terms of the SCL EA3 and following the Company's receipt of independent expert advice) 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. However, the HKSAR Government has responded to the Company by reiterating that the HKSAR Government considers there have not been any material modifications to any of the scope of works, entrustment activities and/or entrustment programme contained in the SCL EA3 and, as such, the HKSAR Government maintains its position of disagreement to any increase in the project management fee.

Despite the fact that this matter needs to be resolved, the Company has continued, and intends to continue, to comply with its project management obligations under the SCL EA3 and has met, and intends to continue to meet, the costs thereof, on an interim and without prejudice basis, to allow the SCL Project to progress in accordance with the latest programme in order to achieve a full opening of the SCL as soon as reasonably practicable, whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3.

(iii) Provision for the SCL PMC

After taking into account the matters described in note 21B(b)(ii) above, and in particular, the Company meeting, on an interim and without prejudice basis (whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3), the cost to the Company of continuing to comply with its project management obligations, the Group has recognised a provision of HK$1,371 million, for the estimated additional cost to the Company of continuing to comply with its project management responsibilities, in its consolidated profit and loss account for the year ended 31 December 2020. During the year ended 31 December 2020, the provision utilised amounted to HK$45 million and no provision was written back. The provision (net of amount utilised) is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

This amount does not take into account any potential payment to the Company of any Additional PMC (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 payment becomes virtually certain, the amount of any such payment will be recognised and credited to the Company's consolidated profit and loss account in that financial period.

(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.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

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 have been 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.

On 27 March 2020, the COI submitted its final report to the Chief Executive on its findings and recommendations on matters covered by the original and extended terms of reference. On 12 May 2020, the HKSAR Government published the final report in which the COI determined that it is fully satisfied that, with the suitable measures in place, the station box structure will be safe and also fit for purpose. The COI also stated that it is satisfied that, with suitable measures completed, the NAT, SAT and HHS structures will be safe and fit for purpose. The suitable measures for the station box structure were completed in June 2020 and the suitable measures for the NAT, SAT and HHS structures were completed in May 2020. The COI also made a number of comments on the construction process (including regarding failures in respect thereof such as unacceptable incidents of poor workmanship compounded by lax supervision and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations to the Company for the future.

*(ii) Expert Adviser Team ("**EAT**")*

On 1 February 2021, the EAT on the SCL project, which was appointed by the HKSAR Government in August 2018 to conduct an overall review of the Company's project management system and recommend additional management and monitoring measures to be undertaken by the Company and the HKSAR Government in taking forward the SCL project, has submitted its final report to the HKSAR Government. The report noted that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of the suitable measures. The EAT has also put forward in the report recommendations to the Company and the HKSAR Government for the continuous improvement of railway project management.

(iii) Provision for the 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.

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 matters described in note 21B(c) above, and in particular, 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. During the year ended 31 December 2020, the provision utilised amounted to HK$566 million (2019: HK$284 million) and no provision was written back (2019: HK$nil). The provision (net of amount utilised) is included 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.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(d) Mixed Fleet Operation Incident

On 11 September 2020, the Company announced the delay in service commencement of the new East Rail Line ("**EAL**") signalling system and introduction of new nine-car trains which was originally scheduled for 12 September 2020 (collectively "**Mixed Fleet Operation Incident**"), following a review on the new signalling system conducted by the Company prior to service commencement.

On 13 September 2020, the Company announced the setting up of the Investigation Panel to look into the Mixed Fleet Operation Incident and to submit an investigation report to the HKSAR Government. On 21 January 2021, the Company submitted to the HKSAR Government for its review the report from the Investigation Panel. The Company acknowledged and accepted the findings of the Investigation Panel which include a finding that the issue concerned in the Mixed Fleet Operation Incident is not an issue of safety but of service reliability. The Company also accepted and will implement the recommendations made in the report. Following the satisfactory completion of further additional testing and approval by relevant HKSAR Government departments, the new signalling system and the new nine-car trains on the EAL were commissioned on 6 February 2021 in preparation for extending the EAL across the harbour to Admiralty Station.

(e) 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 21B(c)(i) above), up to the date of this 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.

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 and the level of recovery from relevant parties remain highly uncertain at the current stage. As a result, no additional provision other than as stated 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 provision in respect of the SCL Project related matters was recognised at 31 December 2020 other than as stated above, the Company will reassess on an ongoing basis the need to recognise any further provision in the future in light of any further development.

(f) 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 including with KCRC the supplemental service concession agreement ("**SSCA-SCL**"). 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 SSCA-SCL that was executed on 11 February 2020).

22 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the land over the stations along railway lines.

As at 31 December 2020, the outstanding Hong Kong Property Development Projects of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites in Wong Chuk Hang, Kwun Tong Line Extension Property Project at sites in Ho Man Tin and the East Rail Line/Light Rail Property Projects at sites along the related railway lines.

A Property Development in Progress

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 31 December
2020					
Hong Kong Property Development Projects	**12,022**	**687**	**(276)**	**(491)**	**11,942**
2019					
Hong Kong Property Development Projects	14,840	3,819	(662)	(5,975)	12,022

The lease terms of leasehold land in Hong Kong included under property development in progress are between 10 and 50 years.

B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the consolidated statement of financial position. As at 31 December 2020, the balance of the stakeholding funds was HK$16,034 million (2019: HK$21,283 million).

C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2020, HK$42 million (2019: HK$182 million) agency fee and other income in respect of West Rail property development was recognised (note 12). During the year ended 31 December 2020, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$70 million (2019: HK$81 million).

23 Investments in Subsidiaries

The following list contains the particulars of principal subsidiaries of the Company:

Name of company	Issued share capital/ contributed registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary(ies)	Place of incorporation/ establishment and operation	Principal activities
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operating the Tung Chung to Ngong Ping cable car system and theme village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900	60% on ordinary shares;	–	100% on ordinary shares;	Australia	Railway operations and maintenance
	AUD100	30% on Class A shares	–	100% on Class A shares		
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Railway operations and maintenance
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Design, delivery and integration of railway related systems
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macao	Railway consultancy services
MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda. (also known as MTR Railway Operations (Macau) Company Limited)	MOP25,000	100%	–	100%	Macao	Railway operations and management
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co., Ltd.^	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR Corporation (Shenzhen) Limited^	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Property Development (Shenzhen) Company Limited#	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance

* Subsidiaries not audited by KPMG

^ Wholly foreign owned enterprise registered under PRC Law

Sino-foreign equity joint venture registered under PRC Law

23 Investments in Subsidiaries *(continued)*

The Directors of the Company are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which, in the opinion of the Directors, materially contribute to the Group's results, assets or liabilities.

24 Interests in Associates and Joint Venture

The following list contains the particulars of material associates and joint venture, all of which are unlisted corporate entities whose quoted market price is not available:

Name of company	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Associates					
Octopus Holdings Limited	57.4%	57.4%	–	Hong Kong	Holding company of a group of companies which engage in the operation of a contactless smartcard common payment system in Hong Kong and consultancy services
Beijing MTR Corporation Limited~	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited#	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited*~	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited*	30%	–	30%	United Kingdom	Railway operations and management
NRT Pty Ltd*	27.55%	–	27.55%	Australia	Financing, railway operations and maintenance
Joint Venture					
Hangzhou MTR Line 5 Corporation Limited~	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

* Companies not audited by KPMG

~ Sino-foreign co-operative joint venture registered under PRC Law

Limited liability company (wholly owned by a legal person) under PRC Law

All the associates and joint venture are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

24 Interests in Associates and Joint Venture *(continued)*

The summary financial information of the Group's effective interests in associates and joint venture is as follows:

in HK$ million	2020	2019
Assets	**30,576**	28,085
Liabilities	**(19,036)**	(17,765)
Net assets	**11,540**	10,320
Income	**6,228**	8,424
Expenses and others	**(5,412)**	(7,794)
Profit before taxation	**816**	630
Income tax	**(211)**	(342)
Net profit	**605**	288
Other comprehensive income	**600**	(185)
Total comprehensive income	**1,205**	103
Group's share of net assets of the associates and joint venture	**11,540**	10,320
Goodwill	**52**	39
Carrying amount in the consolidated statement of financial position	**11,592**	10,359

In March 2017, the Department for Transport of the United Kingdom ("DfT") awarded the South Western Railway franchise ("Franchise") to First MTR South Western Trains Limited ("SWR"), an associate of the Company which the Company holds a 30% shareholding and FirstGroup plc in the United Kingdom holds a 70% shareholding. Pursuant to a franchise agreement ("Franchise Agreement") with DfT, the period of the Franchise runs from 20 August 2017 for seven years, with an option for an eleven-month extension at the discretion of the DfT. As noted in the Company's 2019 annual accounts, a provision of GBP43 million (HK$436 million) has been made under "share of profit or loss of associates and joint venture" in the consolidated profit and loss account for the year ended 31 December 2019 which represents the Company's 30% share of the maximum potential loss under the Franchise Agreement. Since March 2020, the franchise has been operating under the terms of the Emergency Measures Agreement and subsequently the Emergency Recovery Measures Agreement ("ERMA") put in place by the UK Government. As required under ERMA, SWR has agreed with DfT the termination sum required to terminate the pre-existing Franchise Agreement. Such termination sum will fall due at the end of the ERMA term, at which point the pre-existing franchise contract would also terminate by agreement. At the end of 2020, SWR is in the process of negotiating a new directly awarded management contract with the DfT, which will come into effect at the end of the ERMA. SWR's ERMA is in place up to 29 May 2021.

25 Investments in Securities

Investments in securities at 31 December 2020 represented investments in unlisted equity securities held by subsidiaries in the Mainland of China of HK$254 million (2019: HK$nil) and debt securities held by an overseas insurance underwriting subsidiary measured at FVPL of HK$214 million (2019: HK$386 million). As at 31 December 2020, all debt securities were expected to mature within one year except for HK$154 million (2019: HK$332 million) which were expected to mature after one year.

26 Properties Held for Sale

in HK$ million	2020	2019
Properties held for sale		
– at cost	**1,159**	1,125
– at net realisable value	**641**	120
	1,800	1,245
Representing:		
Hong Kong property development	**1,572**	1,034
Mainland of China property development	**228**	211
	1,800	1,245

Properties held for sale of the Group at 31 December 2020 comprise interests in properties from property developments in Hong Kong and Mainland of China.

For Hong Kong property development, the net realisable values as at 31 December 2020 and 2019 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Colliers International (Hong Kong) Limited (2019: Jones Lang LaSalle Limited), who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value of the Group are stated net of provision of HK$8 million (2019: HK$12 million) made in order to state these properties at the lower of their cost and estimated net realisable value. The remaining lease terms of leasehold land in Hong Kong included under properties held for sale are between 10 and 50 years.

27 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2020							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	**386**	**11**					
– inflow			**269**	**78**	**40**	**9**	**396**
– outflow			**(263)**	**(75)**	**(39)**	**(9)**	**(386)**
– not qualified for hedge accounting:	**482**	**19**					
– inflow			**471**	**30**	**1**	**–**	**502**
– outflow			**(453)**	**(28)**	**(1)**	**–**	**(482)**
Cross currency swaps							
– fair value hedges:	**2,333**	**110**					
– inflow			**1,274**	**14**	**478**	**705**	**2,471**
– outflow			**(1,176)**	**(3)**	**(466)**	**(698)**	**(2,343)**
– cash flow hedges:	**12,797**	**277**					
– inflow			**279**	**280**	**840**	**16,629**	**18,028**
– outflow			**(249)**	**(248)**	**(746)**	**(16,432)**	**(17,675)**
Net settled:							
Interest rate swaps							
– fair value hedges	**4,390**	**62**	**55**	**21**	**15**	**–**	**91**
– cash flow hedges	**250**	**1**	**(2)**	**(2)**	**(2)**	**7**	**1**
– not qualified for hedge accounting	**413**	**–**	**–**	**–**	**–**	**–**	**–**
	21,051	**480**	**205**	**67**	**120**	**211**	**603**
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	**1,960**	**25**					
– inflow			**1,960**	**–**	**–**	**–**	**1,960**
– outflow			**(1,985)**	**–**	**–**	**–**	**(1,985)**
– cash flow hedges:	**7**	**1**					
– inflow			**–**	**1**	**5**	**–**	**6**
– outflow			**–**	**(2)**	**(5)**	**–**	**(7)**
– not qualified for hedge accounting:	**1,390**	**6**					
– inflow			**1,371**	**19**	**–**	**–**	**1,390**
– outflow			**(1,377)**	**(19)**	**–**	**–**	**(1,396)**
Cross currency swaps							
– cash flow hedges:	**5,730**	**301**					
– inflow			**126**	**127**	**649**	**5,728**	**6,630**
– outflow			**(146)**	**(146)**	**(759)**	**(5,873)**	**(6,924)**
Net settled:							
Interest rate swaps							
– cash flow hedges	**3,250**	**47**	**(21)**	**(16)**	**(33)**	**22**	**(48)**
– not qualified for hedge accounting	**1,734**	**1**	**1**	**–**	**(1)**	**–**	**–**
	14,071	**381**	**(71)**	**(36)**	**(144)**	**(123)**	**(374)**
Total	**35,122**						

27 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2019							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	51	1					
– inflow			42	10	–	–	52
– outflow			(41)	(10)	–	–	(51)
– not qualified for hedge accounting:	721	19					
– inflow			640	84	–	–	724
– outflow			(622)	(82)	–	–	(704)
Cross currency swaps							
– fair value hedges:	698	9					
– inflow			1	1	5	700	707
– outflow			–	–	–	(698)	(698)
– cash flow hedges:	8,430	139					
– inflow			244	245	737	9,276	10,502
– outflow			(218)	(218)	(657)	(9,214)	(10,307)
– hedges of net investments:	64	1					
– inflow			67	–	–	–	67
– outflow			(66)	–	–	–	(66)
Net settled:							
Interest rate swaps							
– fair value hedges	8,841	12	14	2	2	–	18
– cash flow hedges	1,250	14	11	4	–	–	15
– not qualified for hedge accounting	1,913	3	2	2	2	–	6
	21,968	198	74	38	89	64	265
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	321	11					
– inflow			150	135	22	2	309
– outflow			(154)	(142)	(23)	(2)	(321)
– hedges of net investments:	1,984	16					
– inflow			1,984	–	–	–	1,984
– outflow			(2,000)	–	–	–	(2,000)
– not qualified for hedge accounting:	783	15					
– inflow			650	118	–	–	768
– outflow			(663)	(120)	–	–	(783)
Cross currency swaps							
– cash flow hedges:	5,446	350					
– inflow			78	79	504	8,136	8,797
– outflow			(101)	(100)	(633)	(8,343)	(9,177)
Net settled:							
Interest rate swaps							
– fair value hedges	3,785	11	(14)	(3)	(2)	–	(19)
– cash flow hedges	100	3	–	–	(1)	(1)	(2)
– not qualified for hedge accounting	783	2	–	–	–	–	–
	13,202	408	(70)	(33)	(133)	(208)	(444)
Total	35,170						

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2020 and 2019 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.163% to 1.105% (2019: 1.760% to 2.666%) for Hong Kong dollars, 0.164% to 1.189% (2019: 1.630% to 2.010%) for US dollars, 0.020% to 1.325% (2019: 0.809% to 1.768%) for Australian dollars and -0.058% to 0.183% (2019: 0.012% to 0.124%) for Japanese yen.

The table above details the remaining contractual maturities at the end of the reporting period of the Group's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay. The details of the fair value measurement are disclosed in note 40.

27 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") for the Company is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Company's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Company are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements at the parent company level as specified in the Model. The Company also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's loans and other obligations other than lease liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2020				2019			
in HK$ million	Capital market instruments	Bank loans	Others	Total	Capital market instruments	Bank loans	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**35,782**	**731**	**–**	**36,513**	25,138	887	–	26,025
Amounts repayable within a period of between 2 and 5 years	**3,881**	**1,979**	**618**	**6,478**	4,517	3,001	624	8,142
Amounts repayable within a period of between 1 and 2 years	**3,220**	**234**	**–**	**3,454**	1,029	254	–	1,283
Amounts repayable within 1 year	**4,985**	**9,608**	**–**	**14,593**	3,513	9,489	–	13,002
	47,868	**12,552**	**618**	**61,038**	34,197	13,631	624	48,452

Others represent obligations under lease out/lease back transaction (note 19E).

27 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 45% and 75% (2019: 45% and 75%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2020, 70% (2019: 63%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2020, it is estimated that a 100 basis points increase/25 basis points decrease in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and increase/decrease the Group's retained profits by approximately HK$73 million/HK$18 million. Other components of consolidated equity would increase/decrease by approximately HK$195 million/HK$52 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonably possible change in interest rates over the period until the next annual financial period.

In 2019, a similar analysis was performed based on the assumption of a 100 basis points increase/100 basis points decrease in interest rates, which would decrease/increase the Group's profit after tax and the Group's retained profits by approximately HK$46 million/HK$51 million. Other components of consolidated equity would increase/decrease by approximately HK$30 million/HK$30 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as overseas investment and procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt at the parent company level as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Company would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Company's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 19E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of the reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its consolidated statement of financial position. As at the end of the reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 29.

28 Stores and Spares

As at 31 December 2020, stores and spares net of provision for obsolete stock of HK$19 million (2019: HK$21 million) amounted to HK$2,014 million (2019: HK$1,844 million), of which HK$1,434 million (2019: HK$1,310 million) is expected to be consumed within 1 year and HK$580 million (2019: HK$534 million) is expected to be consumed after 1 year. Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

29 Debtors and Other Receivables

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 29 (ii) below) is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) Fare revenue from SZL4 is collected either through Shenzhen Tong Cards or QR code payment with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTRX is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.

(iv) Franchise revenue in Australia is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for TfL Rail/Elizabeth Line is collected once every 4 weeks. Service fees from Macao Light Rapid Transit Taipa Line are billed monthly with due dates in accordance with the terms of the service agreement.

(v) Rentals, advertising and telecommunication service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vii) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(viii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(ix) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK$ million	**2020**	2019
Amounts not yet due	**3,343**	2,775
Overdue by 30 days	**209**	153
Overdue by 60 days	**80**	59
Overdue by 90 days	**24**	41
Overdue by more than 90 days	**126**	192
Total debtors	**3,782**	3,220
Other receivables and contract assets	**9,531**	7,949
	13,313	11,169

Included in other receivables as at 31 December 2020 was HK$3,387 million (2019: HK$2,813 million) in respect of property development profit in Hong Kong distributable from stakeholding funds and receivables from property purchasers based on the terms of the development agreements and sales and purchase agreements.

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.

29 Debtors and Other Receivables *(continued)*

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 2019 and 2020 in respect of the above notices of assessment/ additional assessment.

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR") at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The disposal was completed on 10 July 2017 and consequently a prepayment is recognised on the consolidated statement of financial position. A performance bond in the amount of RMB1.6 billion issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

The Group's exposure to credit risk on debtors and other receivables mainly relates to debtors relating to rental receivables in Hong Kong and franchise fee/project fee receivables outside of Hong Kong. Given the Group's policy is to receive rental deposits from tenants in Hong Kong and the debtors in relation to the franchise fee/project fee receivables outside of Hong Kong are government related entities, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2020, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$4,844 million (2019: HK$2,548 million) in the Group which were expected to be recovered after more than one year. The nominal values less credit losses are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	**2020**	2019
Australian dollars	**8**	8
Renminbi	**12**	66
United States dollars	**12**	8

30 Amounts Due from Related Parties

in HK$ million	**2020**	2019
Amounts due from:		
– HKSAR Government	**2,504**	1,783
– KCRC	**2,859**	1,159
– associates	**99**	99
	5,462	3,041

As at 31 December 2020, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference shared by the HKSAR Government in relation to the "20% Rebate for Every Octopus Trip" scheme, reimbursement of the fare revenue difference in relation to the "Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities", agency fee receivables and reimbursable costs in respect of West Rail property development (note 22C), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail.

Given the amounts due from related parties mainly related to HKSAR Government and government related entity, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2020, all amounts due from related parties were expected to be recovered within one year except for HK$2,077 million (2019: HK$1,156 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

31 Cash, Bank Balances and Deposits

in HK$ million	2020	2019
Deposits with banks and other financial institutions	**10,869**	13,892
Cash at banks and on hand	**10,037**	7,294
Cash, bank balances and deposits	**20,906**	21,186
Less: Bank deposits with more than three months to maturity when placed or pledged deposits (note 32E)	**(9,027)**	(12,840)
Cash and cash equivalents in the cash flow statement	**11,879**	8,346

Included in cash, bank balance and deposits in the consolidated statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2020	2019
Australian dollars	**33**	16
Euros	**13**	8
Japanese yen	**957**	893
Pound sterling	**210**	8
United States dollars	**442**	2

32 Loans and Other Obligations

A By Type

	2020			2019		
in HK$ million	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2023 to 2047 (2019: due during 2026 to 2047)	**18,382**	**21,555**	**18,575**	8,712	10,110	8,852
Unlisted:						
Debt issuance programme notes due during 2021 to 2055 (2019: due during 2020 to 2055)	**17,614**	**21,143**	**17,767**	15,492	17,418	15,973
Total capital market instruments	**35,996**	**42,698**	**36,342**	24,204	27,528	24,825
Bank loans	**9,287**	**9,287**	**9,293**	10,141	10,142	10,147
Lease liabilities	**1,180**	**1,240**	**1,180**	1,241	1,311	1,241
Others	**520**	**611**	**520**	499	573	499
Loans and other obligations	**46,983**	**53,836**	**47,335**	36,085	39,554	36,712
Short-term loans	**3,357**	**3,357**	**3,357**	3,371	3,371	3,371
Total	**50,340**	**57,193**	**50,692**	39,456	42,925	40,083

Others include non-defeased obligations under lease out/lease back transaction (note 19E).

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans approximated their fair values. Details of the fair value measurement are disclosed in note 40.

32 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

	Before hedging activities		After hedging activities	
in million	**2020**	2019	**2020**	2019
Australian dollars	**431**	431	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
Renminbi	**1,130**	–	**–**	–
United States dollars	**2,290**	1,130	**–**	–

B By Repayment Terms

	2020					2019				
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Total	Capital market instruments	Bank loans	Lease liabilities	Others	Total
Loans and other obligations										
Amounts repayable beyond 5 years	**28,119**	**807**	**15**	**–**	**28,941**	18,738	978	27	–	19,743
Amounts repayable within a period of between 2 and 5 years	**1,732**	**2,024**	**192**	**520**	**4,468**	2,847	2,952	788	499	7,086
Amounts repayable within a period of between 1 and 2 years	**2,430**	**231**	**322**	**–**	**2,983**	413	217	194	–	824
Amounts repayable within 1 year	**4,061**	**6,231**	**651**	**–**	**10,943**	2,827	6,000	232	–	9,059
	36,342	**9,293**	**1,180**	**520**	**47,335**	24,825	10,147	1,241	499	36,712
Short-term loans	**–**	**3,357**	**–**	**–**	**3,357**	–	3,371	–	–	3,371
	36,342	**12,650**	**1,180**	**520**	**50,692**	24,825	13,518	1,241	499	40,083
Less: Unamortised discount/premium/finance charges outstanding	**(286)**	**(6)**	**–**	**–**	**(292)**	(148)	(6)	–	–	(154)
Adjustment due to fair value change of financial instruments	**(60)**	**–**	**–**	**–**	**(60)**	(473)	–	–	–	(473)
Total carrying amount of debt	**35,996**	**12,644**	**1,180**	**520**	**50,340**	24,204	13,512	1,241	499	39,456

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2020 and 2019 comprise:

	2020		2019	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**14,642**	**14,511**	1,183	1,183

During the year ended 31 December 2020, the Company issued HK$3,630 million, RMB720 million (or HK$782 million), and USD60 million (or HK$465 million) of its unlisted debt securities in the respective currency (2019: HK$400 million and USD100 million (or HK$783 million) of its unlisted debt securities) and RMB410 million (or HK$465 million) and USD1,200 million (or HK$9,300 million) of its listed debt securities in the respective currency (2019: HK$nil).

As at 31 December 2020, there were outstanding debt securities issued by a wholly-owned subsidiary, MTR Corporation (C.I.) Limited ("MTRCI"). The obligations of the debt securities issued by MTRCI are direct, unsecured and unsubordinated to the other unsecured obligations of MTRCI which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2020, the Group redeemed HK$2,348 million and USD100 million (or HK$783 million) of its unlisted debt securities (2019: HK$500 million) and did not redeem any of its listed debt securities (2019: HK$nil).

32 Loans and Other Obligations *(continued)*

D Lease Liabilities

At 31 December 2020 and 2019, the Group had lease liabilities as follows:

	2020		2019	
in HK$ million	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	**651**	**704**	232	276
After 1 year but within 2 years	**322**	**343**	194	235
After 2 years but within 5 years	**192**	**206**	788	876
After 5 years	**15**	**16**	27	28
	529	**565**	1,009	1,139
	1,180	**1,269**	1,241	1,415
Less: Total future interest expenses		**(89)**		(174)
Present value of lease obligations		**1,180**		1,241

E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2020 and 2019.

(ii) As at 31 December 2020, MTR Corporation (Shenzhen) Limited has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Line 4 as security for the RMB1,653 million (2019: RMB1,847 million) bank loan facility granted to it.

Save as disclosed above and those disclosed elsewhere in the consolidated accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2020.

33 Creditors, Other Payables and Provisions

in HK$ million	2020	2019
Creditors and accrued charges	**19,419**	19,315
Other payables and provisions (notes 21B(b)(iii)&(c)(iii))	**14,974**	11,787
Contract liabilities	**2,444**	2,213
	36,837	33,315

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	2020	2019
Due within 30 days or on demand	**8,024**	7,157
Due after 30 days but within 60 days	**1,450**	1,559
Due after 60 days but within 90 days	**638**	774
Due after 90 days	**4,844**	4,978
	14,956	14,468
Rental and other refundable deposits	**2,989**	2,857
Accrued employee benefits	**1,474**	1,990
	19,419	19,315

The Group's general payment terms are one to two months from the invoice date.

33 Creditors, Other Payables and Provisions *(continued)*

A Creditors and Accrued Charges *(continued)*

Movements in contract liabilities of the Group during the year ended 31 December are as follows:

in HK$ million	2020	2019
Balance as at 1 January	**2,213**	2,116
Increase in contract liabilities as a result of billing in advance	**981**	1,520
Decrease in contract liabilities as a result of revenue recognised during the year that was included in the contract liabilities at the beginning of the year	**(836)**	(1,410)
Exchange differences	**86**	(13)
Balance as at 31 December	**2,444**	2,213

Contract liabilities mainly arise from construction contracts and other project arrangements, when the Group receives a deposit before the activity commences and until the revenue recognised on the project exceeds the amount of the deposit received. The payment terms are negotiated on a case by case basis with customers.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2020	2019
Australian dollars	**9**	9
Euros	**18**	9
Pound sterling	**4**	3
Renminbi	**113**	8
United States dollars	**28**	12

B Other Payables

Other payables comprised contract retentions and deferred income. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, as well as the unutilised government subsidy for SZL4 operation.

As at 31 December 2020, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK$16,043 million (2019: HK$16,204 million), including contract liabilities of HK$963 million (2019: HK$801 million), of the Group which were expected to be settled or recognised as income after one year. The amounts due after one year for the Group as at 31 December 2020 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid within three years. The Group considers the effect of discounting would be immaterial.

34 Amounts Due to Related Parties

in HK$ million	2020	2019
Amounts due to:		
– HKSAR Government	**94**	117
– KCRC	**301**	2,873
– associates	**58**	–
	453	2,990

The amount due to the HKSAR Government as at 31 December 2020 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2020 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

35 Obligations under Service Concession

Movements of the Group's obligations under service concessions are as follows:

in HK$ million	2020	2019
Balance as at 1 January	**10,350**	10,409
Less: Net amount repaid during the year	**(65)**	(56)
Exchange differences	**10**	(3)
Balance as at 31 December	**10,295**	10,350

The outstanding balances as at 31 December 2020 and 2019 are repayable as follows:

	2020			2019		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	**9,904**	**14,346**	**24,250**	9,978	15,013	24,991
Amounts repayable within a period of between 2 and 5 years	**247**	**1,976**	**2,223**	238	1,990	2,228
Amounts repayable within a period of between 1 and 2 years	**74**	**688**	**762**	69	692	761
Amounts repayable within 1 year	**70**	**692**	**762**	65	696	761
	10,295	**17,702**	**27,997**	10,350	18,391	28,741

36 Loans from Holders of Non-controlling Interests

Loans from holders of non-controlling interests as at 31 December 2020 mainly represents the portion of total shareholder loan of AUD60 million (HK$359 million) (2019: AUD60 million (HK$328 million)) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

37 Income Tax in the Consolidated Statement of Financial Position

A Current taxation in the consolidated statement of financial position includes:

in HK$ million	2020	2019
Balance relating to Hong Kong Profits Tax	**898**	1,904
Balance relating to tax outside Hong Kong	**106**	120
	1,004	2,024

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2020						
Balance as at 1 January 2020	**13,007**	**778**	**(123)**	**43**	**(110)**	**13,595**
Charged/(credited) to consolidated profit and loss account	**356**	**(1)**	**(292)**	**–**	**(20)**	**43**
(Credited)/charged to reserves	**–**	**(54)**	**141**	**(14)**	**–**	**73**
Exchange differences	**2**	**–**	**(40)**	**–**	**(18)**	**(56)**
Balance as at 31 December 2020	**13,365**	**723**	**(314)**	**29**	**(148)**	**13,655**
2019						
Balance as at 1 January 2019	12,385	759	(183)	(5)	(103)	12,853
Charged/(credited) to consolidated profit and loss account	620	(5)	(76)	–	(1)	538
Charged to reserves	–	24	139	48	–	211
Acquisition of subsidiary	–	–	–	–	(12)	(12)
Exchange differences	2	–	(3)	–	6	5
Balance as at 31 December 2019	13,007	778	(123)	43	(110)	13,595

in HK$ million	2020	2019
Net deferred tax assets	**(470)**	(134)
Net deferred tax liabilities	**14,125**	13,729
	13,655	13,595

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$410 million (2019: HK$326 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

38 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2020		2019	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,157,948,911**	**58,804**	6,139,485,589	57,970
Shares issued in respect of scrip dividend of 2019/2018 final ordinary dividend	**18,426,649**	**692**	13,707,539	654
Shares issued in respect of scrip dividend of 2020/2019 interim ordinary dividend	**2,004,813**	**81**	1,494,283	71
Vesting of shares of Executive Share Incentive Scheme	**–**	**6**	–	5
Shares issued under the share option scheme	**2,547,500**	**83**	3,261,500	104
At 31 December	**6,180,927,873**	**59,666**	6,157,948,911	58,804

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

B Shares Held for Executive Share Incentive Scheme

During the year ended 31 December 2020, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 41(ii)). In this regard, a total of 6,950 Performance Shares (2019: 244,650) and 2,334,750 Restricted Shares (2019: 2,062,150) were awarded and accepted by the grantees on 8 April 2020 (2019: 1 April 2019 and 8 April 2019). The fair values of these Award Shares were HK$41.90 per share (2019: HK$48.90 per share on 1 April 2019 and HK$48.40 per share on 8 April 2019).

During the year ended 31 December 2020, 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 2,020,000 Ordinary Shares (2019: 1,870,000 Ordinary Shares) of the Company for a total consideration of approximately HK$86 million (2019: HK$88 million). During the year ended 31 December 2020, 58,339 Ordinary Shares of the Company (2019: 64,088 Ordinary Shares) were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$3 million (2019: HK$3 million).

During the year ended 31 December 2020, 1,984,400 shares (2019: 2,230,420 shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$90 million (2019: HK$93 million). During the year ended 31 December 2020, HK$6 million (2019: HK$5 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2020, 283,673 award shares (2019: 174,697 award shares) were lapsed/forfeited.

As at 31 December 2020, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 5,947,665 shares (2019: 5,853,726) held in trust under the Executive Share Incentive Scheme (excluding shares vested but not yet transferred to awardees).

C New Shares Issued and Fully Paid Up during the Year

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**2,547,500**	**30.146**

An analysis of the Company's outstanding share options as at 31 December 2020 is disclosed in note 41.

38 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

D The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied buildings (note 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2V(ii).

The employee share-based capital reserve comprises the share-based payment expenses recognised in respect of share options under the share option scheme which are yet to be exercised, and in respect of award shares under the Executive Share Incentive Scheme granted which are yet to be vested, as explained in the accounting policy under note 2W(iii). The amount will either be transferred to the share capital account when the option is exercised or when the award share is vested, or be released directly to retained profits if the option is lapsed.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2AC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK$51,935 million (2019: HK$60,964 million) included in retained profits of the Company are non-distributable as they do not constitute realised profits. As at 31 December 2020, the Company considers that the total amount of reserves of the Company available for distribution to shareholders amounted to HK$54,347 million (2019: HK$56,546 million).

Included in the Group's retained profits as at 31 December 2020 is an amount of HK$2,656 million (2019: HK$2,431 million), being the retained profits attributable to the associates and joint venture.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2020, representing 74.98% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated based on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, obligations under service concession and loans from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. As at 31 December 2020, the Group's net debt-to-equity ratio is 22.5% (2019: 15.4%).

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the SZL4 project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. All the Group's subsidiaries in Sweden are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2020, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

38 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Retained profits	Total equity
2020								
Balance as at 1 January 2020	46	**58,804**	**(263)**	**3,936**	**175**	**160**	**117,510**	**180,322**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(4,311)**	**(4,311)**
Other comprehensive income for the year		**–**	**–**	**(274)**	**(227)**	**–**	**715**	**214**
Total comprehensive loss for the year		**–**	**–**	**(274)**	**(227)**	**–**	**(3,596)**	**(4,097)**
2019 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(6,036)**	**(6,036)**
Shares issued in respect of scrip dividend of 2019 final ordinary dividend		**692**	**(2)**	**–**	**–**	**–**	**2**	**692**
2020 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(1,545)**	**(1,545)**
Shares issued in respect of scrip dividend of 2020 interim ordinary dividend		**81**	**(1)**	**–**	**–**	**–**	**1**	**81**
Shares purchased for Executive Share Incentive Scheme		**–**	**(86)**	**–**	**–**	**–**	**–**	**(86)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		**6**	**90**	**–**	**–**	**(94)**	**(2)**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**121**	**–**	**121**
Employee share options exercised		**83**	**–**	**–**	**–**	**(6)**	**–**	**77**
Balance as at 31 December 2020	46	**59,666**	**(262)**	**3,662**	**(52)**	**181**	**106,334**	**169,529**
2019								
Balance as at 1 January 2019		57,970	(265)	3,815	(99)	142	113,376	174,939
Profit for the year		–	–	–	–	–	10,805	10,805
Other comprehensive income for the year		–	–	121	271	–	702	1,094
Total comprehensive income for the year		–	–	121	271	–	11,507	11,899
Amounts transferred from hedging reserve to initial carrying amount of hedged items		–	–	–	3	–	–	3
2018 final ordinary dividend		–	–	–	–	–	(5,835)	(5,835)
Shares issued in respect of scrip dividend of 2018 final ordinary dividend		654	(2)	–	–	–	2	654
2019 interim ordinary dividend		–	–	–	–	–	(1,539)	(1,539)
Shares issued in respect of scrip dividend of 2019 interim ordinary dividend		71	(1)	–	–	–	1	71
Shares purchased for Executive Share Incentive Scheme		–	(88)	–	–	–	–	(88)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		5	93	–	–	(96)	(2)	–
Employee share-based payments		–	–	–	–	122	–	122
Employee share options exercised		104	–	–	–	(8)	–	96
Balance as at 31 December 2019	46	58,804	(263)	3,936	175	160	117,510	180,322

39 Other Cash Flow Information

A Reconciliation of the Group's operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses to cash generated from operations is as follows:

in HK$ million	2020	2019
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	**5,194**	15,351
Adjustments for non-cash items	**1,519**	1,836
Operating profit before working capital changes	**6,713**	17,187
Increase in debtors and other receivables	**(3,583)**	(1,372)
Increase in stores and spares	**(119)**	(188)
(Decrease)/increase in creditors and other payables	**(463)**	1,493
Cash generated from operations	**2,548**	17,120

B Reconciliation of the Group's liabilities arising from financing activities is as follows:

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Short-term loans	Interest and finance charges payables	Total
2020							
At 1 January 2020	**24,204**	**10,141**	**1,241**	**499**	**3,371**	**145**	**39,601**
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	**14,511**	**12,287**	**–**	**–**	**74**	**–**	**26,872**
– Repayment of loans and capital market instruments	**(3,130)**	**(13,274)**	**–**	**–**	**(91)**	**–**	**(16,495)**
– Capital element of lease rentals paid	**–**	**–**	**(232)**	**–**	**–**	**–**	**(232)**
– Interest and finance charges	**–**	**–**	**–**	**–**	**–**	**(1,039)**	**(1,039)**
	11,381	**(987)**	**(232)**	**–**	**(17)**	**(1,039)**	**9,106**
Exchange differences	**4**	**133**	**107**	**(4)**	**3**	**(7)**	**236**
Other changes:							
– Adjustment due to fair value change of financial instruments	**407**	**–**	**–**	**–**	**–**	**–**	**407**
– Recognition of lease liabilities	**–**	**–**	**64**	**–**	**–**	**–**	**64**
– Interest and finance charges	**–**	**–**	**–**	**25**	**–**	**1,051**	**1,076**
	407	**–**	**64**	**25**	**–**	**1,051**	**1,547**
At 31 December 2020	**35,996**	**9,287**	**1,180**	**520**	**3,357**	**150**	**50,490**

39 Other Cash Flow Information *(continued)*

B Reconciliation of the Group's liabilities arising from financing activities is as follows *(continued)*:

in HK$ million	Loans and other obligations: Capital market instruments	Loans and other obligations: Bank loans	Loans and other obligations: Lease liabilities	Loans and other obligations: Others	Short-term loans	Interest and finance charges payables	Total
2019							
At 1 January 2019	23,541	11,312	1,315	478	4,424	113	41,183
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	1,182	10,477	–	–	–	–	11,659
– Repayment of loans and capital market instruments	(500)	(11,619)	–	–	(1,053)	–	(13,172)
– Capital element of lease rentals paid	–	–	(165)	–	–	–	(165)
– Interest and finance charges	–	–	–	–	–	(1,054)	(1,054)
	682	(1,142)	(165)	–	(1,053)	(1,054)	(2,732)
Exchange differences	(3)	(42)	(54)	(2)	–	(8)	(109)
Other changes:							
– Adjustment due to fair value change of financial instruments	(16)	13	–	–	–	–	(3)
– Recognition of lease liabilities	–	–	145	–	–	–	145
– Interest and finance charges	–	–	–	23	–	1,094	1,117
	(16)	13	145	23	–	1,094	1,259
At 31 December 2019	24,204	10,141	1,241	499	3,371	145	39,601

C Total Cash Outflow for Leases

Amounts included in the cash flow statement for leases comprise the following:

in HK$ million	2020	2019
Within operating cash flows	**36**	50
Within financing cash flows	**288**	213
	324	263

These amounts relate to the leases of the following:

in HK$ million	2020	2019
Buildings	**197**	189
Plant and equipment	**127**	74
	324	263

40 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties and self-occupied buildings measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied buildings were revalued as at 31 December 2020 and 2019 by independent qualified surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2020 was 3.5% - 5.75% (2019: 3.5% - 5.75%) with a weighted average of 4.8% (2019: 4.8%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2020 are shown in note 19A. All the fair value adjustment related to investment properties held as at 31 December 2020 was recognised under "Investment property revaluation (loss)/gain" in the consolidated profit and loss account.

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

All of the Group's investments in debt securities were carried at fair value using Level 1 measurements, and the fair value of these financial assets as at 31 December 2020 was HK$214 million (2019: HK$386 million). The derivative financial instruments were carried at fair value using Level 2 measurements. As at 31 December 2020, the fair values of derivative financial assets and derivative financial liabilities were HK$480 million (2019: HK$198 million) and HK$381 million (2019: HK$408 million) respectively. The investments in unlisted equity securities were carried at fair value using Level 3 measurements.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies and the cross currency basis curves of the respective currency pairs at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

During the year, the additions to the investments in unlisted equity securities amounted to HK$254 million (2019: HK$nil). As at 31 December 2020, the fair value of investments in equity securities was HK$254 million (2019: HK$nil). The fair value of the Group's investments in unlisted equity securities is determined based on the adjusted net asset method. The significant unobservable input includes the fair value of the individual assets and liabilities (recognised and unrecognised). The fair value measurement is positively correlated to the fair value of the individual assets and liabilities (recognised and unrecognised). As at 31 December 2020, it is estimated that a 5-percent increase/decrease in fair value of the total individual assets and liabilities (recognised and unrecognised), with all other variables held constant, would decrease/increase the Group's loss after tax by approximately HK$13 million/HK$13 million.

At the end of each interim and annual reporting period, valuations are performed for the financial instruments which are categorised into Level 3 of the fair value hierarchy, and the valuation assumptions and results are reviewed by the Group's management accordingly.

During the years ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

40 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2020 and 2019 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 31 December 2020		At 31 December 2019	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**35,996**	**42,698**	24,204	27,528
Other obligations	**1,700**	**1,851**	1,740	1,884

The above fair value measurement is categorised as Level 2. The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

41 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2020, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme. Details of the schemes are as follows:

(i) 2007 Share Option Scheme

Following the expiry of the New Joiners Share Option Scheme (the "New Option Scheme") in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The 2007 Option Scheme expired in June 2014. All the share options granted were vested prior to 2018.

The following table summarises the outstanding share options as at 31 December 2020 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2014 Award 30 May 2014	**2,347,500**	**28.65**	**on or prior to 23 May 2021**

41 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2020		2019	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding as at 1 January	**4,909,000**	**29.426**	8,170,500	29.441
Exercised during the year	**(2,547,500)**	**30.146**	(3,261,500)	29.465
Forfeited during the year	**(14,000)**	**28.650**	–	–
Outstanding as at 31 December	**2,347,500**	**28.650**	4,909,000	29.426
Exercisable as at 31 December	**2,347,500**	**28.650**	4,909,000	29.426

The weighted average closing price in respect of the share options exercised during the year was HK$42.138 (2019: HK$47.750).

Share options outstanding at the end of the reporting period had the following exercise prices and remaining contractual lives:

	2020		2019	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$31.40	**–**	**–**	1,385,500	0.3
HK$28.65	**2,347,500**	**0.4**	3,523,500	1.4
	2,347,500		4,909,000	

During the year ended 31 December 2020, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme (2019: HK$nil).

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded to selective eligible employees. Performance Shares are awarded to eligible employees which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions as determined by the Remuneration Committee from time to time.

Subject to the Scheme Rules, the Remuneration Committee shall determine the vesting criteria and conditions or periods for the Award Shares to be vested, subject to review from time to time. An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The Executive Share Incentive Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust Deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

41 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

As at 31 December 2020, the following awards of shares with vesting period falling in the years ended 31 December 2019 and 2020 were offered to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme:

	Number of Award Shares granted		Average fair value per share	Vesting period	
Date of award	Restricted Shares	Performance Shares	HK$	From	To
8 April 2016	2,401,150	–	38.65	1 April 2016	1 April 2019
19 August 2016	71,428	–	42.50	15 August 2016	15 August 2019
10 April 2017	2,245,200	–	44.45	3 April 2017	3 April 2020
16 March 2018	80,000	–	43.70	16 March 2018	31 March 2019
10 April 2018	2,208,950	1,772,900	42.80	3 April 2018	3 April 2021 (Restricted Shares) 3 April 2021 (Performance Shares)
1 April 2019	120,000	–	48.90	1 April 2019	31 March 2022
8 April 2019	1,942,150	244,650	48.40	1 April 2019	1 April 2022 (Restricted Shares) 3 April 2021 (Performance Shares)
8 April 2020	**2,334,750**	**6,950**	**41.90**	**1 April 2020**	**1 April 2023 (Restricted Shares)** **3 April 2021 (Performance Shares)**

Movement in the number of Award Shares outstanding was as follows:

	2020	2019
	Number of Award Shares	Number of Award Shares
Outstanding as at 1 January	**5,659,978**	5,758,295
Awarded during the year	**2,341,700**	2,306,800
Vested during the year	**(1,984,400)**	(2,230,420)
Forfeited during the year	**(283,673)**	(174,697)
Outstanding as at 31 December	**5,733,605**	5,659,978

Award Shares outstanding at 31 December 2020 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
10 April 2018	**0.26**	**543,990**
1 April 2019	**1.25**	**120,000**
8 April 2019	**1.25**	**1,122,465**
8 April 2020	**2.25**	**2,212,550**
Performance Shares		
10 April 2018	**0.26**	**1,493,500**
8 April 2019	**0.25**	**234,150**
8 April 2020	**0.25**	**6,950**

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2020, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$121 million (2019: HK$122 million).

42 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, the Mainland of China, Macao, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2020, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted with an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2020, the total number of member was 3,100 (2019: 3,356). In 2020, members contributed HK$65 million (2019: HK$69 million) and the Company contributed HK$253 million (2019: HK$351 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2020 was HK$9,855 million (2019: HK$9,417 million).

The actuarial valuations as at 31 December 2019 and 2020 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, which is represented by Ms Wing Lui, a Fellow of the Society of Actuaries of the United States of America, using the Projected Unit Credit Method. The results of the valuation are shown in note 43.

The actuarial valuations as at 31 December 2019 and 2020 to determine the cash funding requirements were also carried out by Ms Wing Lui of Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2020 included a long-term rate of investment return net of salary increases of 0.25% (2019: -0.25%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. As at the valuation date of 31 December 2020:

(a) the MTR Retirement Scheme was solvent, covering 113.8% (2019: 105.8%) of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency surplus of HK$1,218 million; and

(b) on the assumption that the MTR Retirement Scheme would continue in force, its value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 113.2% (2019: 101.3%), representing a past service surplus of HK$1,173 million.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

As at 31 December 2020, the total number of employees participating in the MTR Provident Fund Scheme was 10,614 (2019: 10,571). In 2020, total members' contributions were HK$159 million (2019: HK$153 million) and total contributions from the Company were HK$372 million (2019: HK$362 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2019: HK$nil). As at the end of the reporting period, forfeited contributions of HK$75 million (2019: HK$54 million) were available to reduce the contributions payable in future years. The net asset value as at 31 December 2020 was HK$7,523 million (2019: HK$6,843 million).

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2020, the total number of employees participating in the MTR MPF Scheme was 5,068 (2019: 5,747). In 2020, total members' contributions were HK$49 million (2019: HK$50 million) and total contribution from the Company were HK$52 million (2019: HK$56 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2019: HK$nil). As at the end of the reporting period, there were no forfeited contributions (2019: HK$nil) available to reduce the contributions payable in future years.

42 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

As at 31 December 2020, the total number of employees participating in the KCRC MPF Scheme was 329 (2019: 372). In 2020, total members' contributions were HK$4 million (2019: HK$5 million) and total contribution from the Company were HK$4 million (2019: HK$5 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2019: HK$nil). As at the end of the reporting period, there were no forfeited contributions (2019: HK$nil) available to reduce the contributions payable in future years.

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2020, total number of the Group's employees participating in this scheme was 533 (2019: 546). In 2020, total members' contributions were HK$11 million (2019: HK$23 million) and total contribution from the Group was HK$62 million (2019: HK$59 million).

Certain employees of the Group's Swedish subsidiaries are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2020, total number of the Group's employees participating in this scheme was 786 (2019: 741). In 2020, total contribution from the Group was HK$20 million (2019: HK$23 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2020, total number of the Group's employees participating in this scheme was 736 (2019: 621). In 2020, total members' contributions were HK$26 million (2019: HK$22 million) and total contribution from the Group was HK$39 million (2019: HK$32 million). Pension expense of HK$86 million (2019: HK$67 million) was recognised in profit and loss and actuarial gain of HK$37 million (2019: HK$28 million) was recognised in the statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China, Macao or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland of China, Macao or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2020, the total number of employees of the Group participating in these schemes was 16,161 (2019: 14,015). In 2020, total members' contributions were HK$110 million (2019: HK$95 million) and total contribution from the Group was HK$493 million (2019: HK$484 million). During the years ended 31 December 2019 and 2020, the amount of contributions forfeited in accordance to the schemes' rules, if applicable, is not significant.

43 Defined Benefit Retirement Scheme

The Company makes contributions to and recognises defined benefit liabilities in respect of MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 42). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A Amounts Recognised in the Consolidated Statement of Financial Position

in HK$ million	**2020**	2019
Present value of defined benefit obligations	**(9,517)**	(9,905)
Fair value of scheme assets	**9,855**	9,417
Net assets/(liabilities)	**338**	(488)

The net assets (2019: net liabilities) are recognised under "Debtors and other receivables" (2019: "Creditors, other payables and provisions") in the consolidated statement of financial position. A portion of the above obligations is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$29 million in contribution to the MTR Retirement Scheme in 2021.

43 Defined Benefit Retirement Scheme *(continued)*

B Scheme Assets

in HK$ million	2020	2019
Equity securities		
– Financial institutions	**396**	482
– Non-financial institutions	**4,091**	4,046
	4,487	4,528
Bonds		
– Government	**1,831**	2,173
– Non-government	**3,384**	2,614
	5,215	4,787
Cash	**367**	297
	10,069	9,612
Voluntary units	**(214)**	(195)
	9,855	9,417

The scheme assets did not include any ordinary shares of the Company as at 31 December 2020 (2019: HK$nil). Also, there were no investment in other shares and debt securities of the Company as at 31 December 2020 and 2019. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the long-term strategic asset allocation of the MTR Retirement Scheme as at 31 December 2020 is set at 42.5% in equities and 57.5% in bonds and cash (2019: 42.5% in equities and 57.5% in bonds and cash).

C Movements in the Present Value of the Defined Benefit Obligations

in HK$ million	2020	2019
At 1 January	**9,905**	10,022
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	**(127)**	252
– Actuarial (gains)/losses arising from changes in demographic assumptions	**–**	–
– Actuarial losses/(gains) arising from changes in financial assumptions	**163**	(96)
	36	156
Members' contributions paid to the scheme	**65**	69
Benefits paid by the scheme	**(1,000)**	(876)
Current service cost	**269**	285
Interest cost	**242**	249
At 31 December	**9,517**	9,905

The weighted average duration of the present value of the defined benefit obligations was 5.6 years as at 31 December 2020 (2019: 6.0 years).

43 Defined Benefit Retirement Scheme *(continued)*

D Movements in Scheme Assets

in HK$ million	2020	2019
At 1 January	**9,417**	8,662
Company's contributions paid to the scheme	**253**	351
Members' contributions paid to the scheme	**65**	69
Benefits paid by the scheme	**(1,000)**	(876)
Administrative expenses paid from scheme assets	**(5)**	(5)
Interest income	**233**	219
Return on scheme assets, excluding interest income	**892**	997
At 31 December	**9,855**	9,417

E Expenses Recognised in the Profit and Loss and Other Comprehensive Income

in HK$ million	2020	2019
Current service cost	**269**	285
Net interest on net defined benefit liability	**9**	30
Administrative expenses paid from scheme assets	**5**	5
	283	320
Less: Amount capitalised	**(49)**	(41)
Net amount recognised in profit or loss	**234**	279
Actuarial losses	**36**	156
Return on scheme assets, excluding interest income	**(892)**	(997)
Amount recognised in other comprehensive income	**(856)**	(841)

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F Significant Actuarial Assumptions and Sensitivity Analysis

	2020	2019
Discount rate	**1.17%**	2.61%
Future salary increase	**2.75%**	4.00%
Unit value increase	**3.00%**	3.75%

The below analysis shows how the present value of the defined benefit obligations as at 31 December would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2020		2019	
	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million
Discount rate	**(131)**	**135**	(142)	146
Future salary increases	**103**	**(98)**	127	(122)
Unit value increase	**32**	**(29)**	13	(11)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

44 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 74.98% of the Company's issued share capital on trust for the HKSAR Government as at 31 December 2020, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an operating agreement which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 44C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("OA"), which is based on the then existing operating agreement referred to in note 44A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). A detailed description of the OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

D Other than the OA described in note 44C above, the Company also entered into principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger. These principal agreements are: (i) Merger Framework Agreement, (ii) Service Concession Agreement, (iii) Sale and Purchase Agreement, (iv) West Rail Agency Agreement, and (v) Property Package Agreements. For the year ended 31 December 2020, amounts recoverable or invoiced by the Company under West Rail Agency Agreement and Property Package Agreements are HK$57 million (2019: HK$84 million) and HK$nil (2019: HK$3 million) respectively and the net amounts payable or paid by the Company in relation to the Service Concession is HK$830 million (2019: HK$3,333 million).

The above agreements are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

E The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the High Speed Rail:

(i) An amendment operating agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that will apply to the High Speed Rail.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2020, net revenue received or receivable from KCRC in respect of the High Speed Rail amounted to HK$1,536 million (2019: HK$717 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

F The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the Tuen Ma Line Phase 1:

(i) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 11 February 2020, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the Tuen Ma Line Phase 1.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 11 February 2020, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the Tuen Ma Line Phase 1 and to prescribe the operational and financial requirements that will apply to the Tuen Ma Line Phase 1. During the year ended 31 December 2020, net revenue received or receivable from KCRC in respect of the Tuen Ma Line Phase 1 amounted to HK$276 million (2019: HK$nil).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

44 Material Related Party Transactions *(continued)*

G 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 supplemental 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. Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the Project Agreement is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

H The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of HSR and SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2020 are provided in notes 21A and 21B. In addition, an amount of HK$580 million was paid/payable to the HKSAR Government in 2020 (2019: HK$891 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

I In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government or allowed to proceed with the development at the following sites during the year:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Site D of the Remaining Portion of Tseung Kwan O Town Lot No. 70	**14 February 2020**	**2,725**	**19 March 2020**
Site KL of the Remaining Portion of Tseung Kwan O Town Lot No. 70	**6 November 2020**	**5,568**	**4 December 2020**

J On 8 February 2021, the Company accepted an offer from the HKSAR Government to proceed with THE SOUTHSIDE (or Wong Chuk Hang Station) Package Five Property Development at Site E of Aberdeen Inland Lot No. 467 at a land premium of HK$6,437.31 million and on the terms and conditions of the relevant Conditions of Exchange No. 20304. The land premium is expected to be paid on or before mid March 2021.

K On 5 July 2013, the Company entered into a contract with the Hong Kong Airport Authority ("HKAA") for the maintenance of the Automated People Mover system at the Hong Kong International Airport ("System") for a seven-year period ("Existing Contract"), effective from 6 July 2013. During the year, the Existing Contract was extended for 6 months to 5 January 2021 and, on 2 July 2020, the Company entered into a new contract with the HKAA for the maintenance of the System for a seven-year period effective from 6 January 2021. In respect of the services provided, HK$122 million was recognised as consultancy income during the year ended 31 December 2020 (2019: HK$82 million).

On 18 May 2018, the Company provided a sub-contractor warranty to the HKAA as a result of obtaining a subcontract from a third party for the modification works of the existing System for a seven year period, effective from 25 September 2017 ("Subcontract"). The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

L During the year ended 31 December 2020, the Group incurred HK$82 million (2019: HK$148 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly owned subsidiary of Octopus Holdings Limited ("OHL"). OCL incurred HK$25 million (2019: HK$42 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK$144 million (2019: HK$187 million) of dividends to the Group.

During the year ended 31 December 2020, MTR Corporation (Sydney) NRT Pty Ltd, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty Ltd at a total amount of AUD13 million (HK$68 million) (2019: AUD106 million or HK$587 million). Metro Trains Sydney Pty Ltd also provided operations and maintenance services in respect of Sydney Metro North West to NRT Pty Ltd at a total amount of AUD99 million (HK$526 million) (2019: AUD96 million or HK$523 million) and mobilisation services in respect of Sydney Metro City & Southwest to NRT CSW Pty Ltd at a total amount of AUD6 million (HK$30 million). MTR Corporation (Sydney) SMCSW Pty Limited also provided delivery of electrical and mechanical systems and rolling stock as well as integration of railway system services to NRT CSW Pty Ltd at a total amount of AUD286 million (HK$1,540 million) (2019: HK$nil).

44 Material Related Party Transactions *(continued)*

M Other than those stated in notes 44A to 44L, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 30 and 34.

N The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 11A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme and award shares under the Executive Share Incentive Scheme. Details of the terms of these options and award shares are disclosed in note 11B, note 11C and the Report of the Members of the Board. Their gross remuneration charged to the consolidated profit and loss account is summarised as follows:

in HK$ million	2020	2019
Short-term employee benefits	**67.0**	73.2
Post-employment benefits	**6.6**	6.2
Equity compensation benefits	**21.6**	24.1
	95.2	103.5

The above remuneration is included in staff costs and related expenses disclosed in note 10A.

O During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	2020	2019
Ordinary dividends		
– Cash dividends paid	**5,700**	5,561

45 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2020 not provided for in the consolidated accounts were as follows:

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
At 31 December 2020					
Authorised but not yet contracted for	**10,799**	**–**	**2,127**	**67**	**12,993**
Authorised and contracted for	**19,473**	**115**	**991**	**9**	**20,588**
	30,272	**115**	**3,118**	**76**	**33,581**
At 31 December 2019					
Authorised but not yet contracted for	8,476	–	2,442	9	10,927
Authorised and contracted for	13,558	170	1,183	20	14,931
	22,034	170	3,625	29	25,858

In addition to the above, the Group has the following capital commitments in respect of its investments in associates and joint venture:

In respect of Shenzhen Metro Line 13, the Group is responsible to contribute equity injection of up to RMB1,428 million. Up to the end of December 2020, the Group has not contributed equity to the project.

In respect of Sydney Metro City & Southwest, the Group is expected to further contribute equity of approximately AUD12.7 million and loans of approximately AUD13.3 million to the project for the share of investment.

45 Commitments *(continued)*

A Capital Commitments *(continued)*

(ii) The commitments under Hong Kong transport operations, station commercial and other businesses comprise the following:

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2020				
Authorised but not yet contracted for	**5,395**	**1,533**	**3,871**	**10,799**
Authorised and contracted for	**16,121**	**491**	**2,861**	**19,473**
	21,516	**2,024**	**6,732**	**30,272**
At 31 December 2019				
Authorised but not yet contracted for	4,090	746	3,640	8,476
Authorised and contracted for	10,267	246	3,045	13,558
	14,357	992	6,685	22,034

B Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2020, the Group had total outstanding liabilities and contractual commitments of HK$2,718 million (2019: HK$3,101 million) in respect of these works and services. Cash funds totalling HK$3,010 million (2019: HK$2,820 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

C Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 32C), the Company has provided guarantees to the investors of approximately HK$18,544 million (in notional amount) as at 31 December 2020. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 19E), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$76.5 million (HK$593 million) as at 31 December 2020. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$62.5 million (HK$485 million) as at 31 December 2020.

In respect of the lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK$15 million) and a parent company guarantee of RMB52.5 million (HK$62 million) in respect of the quarterly rental payments to the landlord.

In respect of the SZL4 concession, the Group has provided to the Shenzhen Municipal Government a parent company guarantee in respect of MTR Corporation (Shenzhen) Limited's performance and other obligations under the concession agreement, which can be called if the performance and other obligations are not met.

In respect of the Melbourne train system franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD147.3 million (HK$880 million) and a performance bond of AUD57.0 million (HK$341 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the lease of the office premises, MTM has provided bank guarantees of AUD2.6 million (HK$16 million) for the monthly rental payments to the landlords.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$945 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK$945 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

In December 2020, the Group was awarded the Mälartåg franchise in Stockholm, Sweden. The Group commits to provide to the Stockholm transport authorities a bank guarantee of SEK300 million (HK$284 million) upon signing the franchise agreement. The bank guarantee can be called if the franchise is terminated early as a result of default by MTR Jota AB (to be renamed MTR Mälartåg AB), the wholly owned subsidiary of the Group to undertake the franchise.

45 Commitments *(continued)*

C Material Financial and Performance Guarantees *(continued)*

In respect of the TfL Rail/Elizabeth Line Franchise in London, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$847 million) and a performance bond of GBP25 million (HK$265 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro North West Franchise, the Group has provided to NRT Pty Ltd, an associate of the Group, a parent company guarantee with a liability cap of AUD1,526 million (HK$9,118 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD17.8 million (HK$106 million) for the performance and other obligations under the design and construction sub-contract. The Group has also provided a parent company guarantee with a liability cap of AUD147.6 million (HK$882 million) for the operation and maintenance of Sydney Metro North West, which can be called if the franchise is terminated early as a result of default by Metro Trains Sydney Pty Limited. The Group has also provided bank guarantee amounting to AUD25.3 million (HK$151 million) as at 31 December 2020 for the operation and maintenance of Sydney Metro North West.

In respect of the Sydney Metro City & Southwest Franchise, the Group has provided to NRT CSW Pty Ltd, an associate of the Group, a parent company guarantee with a liability cap of approximately AUD602 million (HK$3,597 million) for the integrator works under the integrator contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a parent company guarantee with a liability cap of approximately AUD27.5 million (HK$164 million) for the mobilisation phase of the operation and maintenance of Sydney Metro City & Southwest. The Group has also provided a parent company guarantee to Metro Trains Sydney Pty Ltd with a liability cap of approximately AUD221 million (HK$1,321 million) and a parent company guarantee to MTR Corporation (Sydney) SMCSW Pty Limited with a liability cap of approximately AUD221 million (HK$1,321 million) for the interface works under Sydney Metro North West and Sydney Metro City & Southwest.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport a parent company guarantee of GBP13.1 million (HK$139 million), a parent company support facility of GBP1.1 million (HK$12 million), a performance bond of GBP4.8 million (HK$51 million) and a season ticket bond amounting to GBP20.8 million (HK$221 million) as at 31 December 2020 for the performance and other obligations under the franchise agreement.

In respect of the various lines of the Macao Light Rapid Transit, the Group has provided to Macao Light Rapid Transit Corporation, Limited and the Infrastructures Development Bureau of the Macao SAR Government (Gabinete para o Desenvolvimento de Infra-estruturas) a number of bank guarantees amounting to MOP277.3 million (HK$269 million) as at 31 December 2020 for the performance and other obligations under the project.

In respect of the Hangzhou Metro Line 1 and Line 5 concessions, the Group is required to provide handover bank bonds to the Hangzhou Municipal Government before the end of the concessions for a period of three years to cover any non-compliance of handover requirements under the concession agreements.

Except for the provision of SWR as discussed in note 24, no other provision was recognised in respect of the above financial and performance guarantees as at 31 December 2020.

D Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the SCA to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

46 Company-level Statement of Financial Position

in HK$ million	**At 31 December 2020**	At 31 December 2019
Assets		
Fixed assets		
– Investment properties	**83,560**	89,105
– Other property, plant and equipment	**99,865**	100,681
– Service concession assets	**27,311**	25,638
	210,736	215,424
Property management rights	**16**	21
Property development in progress	**11,942**	12,022
Deferred expenditure	**1,116**	1,948
Investments in subsidiaries	**2,175**	1,955
Interests in associates	**24**	24
Properties held for sale	**1,572**	1,034
Derivative financial assets	**480**	198
Stores and spares	**1,378**	1,200
Debtors and other receivables	**8,381**	6,727
Amounts due from related parties	**21,524**	18,413
Cash, bank balances and deposits	**11,769**	12,934
	271,113	271,900
Liabilities		
Short-term loans	**3,259**	3,342
Creditors, other payables and provisions	**27,781**	25,829
Current taxation	**898**	1,842
Amounts due to related parties	**19,800**	23,322
Loans and other obligations	**25,422**	13,117
Obligations under service concession	**10,114**	10,177
Derivative financial liabilities	**381**	408
Deferred tax liabilities	**13,929**	13,541
	101,584	91,578
Net assets	**169,529**	180,322
Capital and reserves		
Share capital	**59,666**	58,804
Shares held for Executive Share Incentive Scheme	**(262)**	(263)
Other reserves	**110,125**	121,781
Total equity	**169,529**	180,322

Approved and authorised for issue by the Members of the Board on 11 March 2021

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

47 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2J).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2I(ii). Long-lived assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs of disposal and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the scheme is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 42A(i) and 43F.

(iv) Profit Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold interests in properties at the lower of their costs and net realisable values (note 26) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms of the OA and the MTR Ordinance, the Company may apply for extensions of the franchise and the Secretary for Transport and Housing shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property and to the extent that the capital expenditure exceeds an agreed threshold ("Capex Threshold"), in an amount equal to any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value. The Group's depreciation policies (note 2J) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the consolidated accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

As detailed in note 29, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

47 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(x) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xi) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than set out in note 21, as at 31 December 2020, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

48 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2020

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these accounts. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*	1 June 2020
Amendments to HKFRS 3, HKAS 16 and HKAS 37, *Narrow-scope amendments*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
HKFRS 17, *Insurance contracts*	1 January 2023

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts.

49 Approval of the Consolidated Accounts

The consolidated accounts were approved by the Board on 11 March 2021.

GLOSSARY

Airport Express	Train service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited, a company which was incorporated in Hong Kong under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or the predecessor Companies Ordinance Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail lines and Tuen Ma Line Phase 1
EBITDA	Operating profit / loss before depreciation, amortisation, variable annual payment and share of profit or loss of associates and joint venture
EBITDA Margin	EBITDA as a percentage of revenue
EBIT	Profit / loss before interest, finance charges and taxation and after variable annual payment
EBIT Margin	EBIT as a percentage of revenue
Express Rail Link or High Speed Rail or HSR	Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, also known as Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) after the commencement of passenger service on 23 September 2018
Fare Index	A measure of customer satisfaction for the fares charged for Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Heavy Rail	Collective name for Domestic Service, Cross-boundary Service and Airport Express

GLOSSARY

Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity Service or Intercity	Intercity through train services operated between Hong Kong and major cities in the Mainland of China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Line 4 operation and accreted interest on loan to a property developer
KCRC	Kowloon-Canton Railway Corporation
KPMG	KPMG, Certified Public Accountants, the independent auditor of the Company. KPMG is a Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated statement of financial position as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Return on Average Equity Attributable to Shareholders of the Company arising from Underlying Businesses	Profit attributable to shareholders of the Company arising from underlying businesses as a percentage of the average of the beginning and closing total equity attributable to shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland of China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research

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SHAREHOLDER SERVICES

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

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