

MTR CORPORATION LIMITED
香港鐵路有限公司
 (the "Company")
 (Incorporated in Hong Kong with limited liability)
 (Stock Code: 66)

**ANNOUNCEMENT OF AUDITED RESULTS
 FOR THE YEAR ENDED 31 DECEMBER 2021**

RESULTS			
HK\$ million	Year ended 31 December		Favourable / (unfavourable) change
	2021	2020	
Revenue from recurrent businesses	46,849	42,541	10.1%
Profit / (loss) from recurrent businesses	1,808	(1,126)	n/m
Profit from property development	9,343	5,507	69.7%
Loss from fair value measurement of investment properties	(1,599)	(9,190)	82.6%
Net profit / (loss) attributable to shareholders of the Company	9,552	(4,809)	n/m

n/m: not meaningful

- Final ordinary dividend of HK\$1.02 per share recommended. Total ordinary dividend for the year of HK\$1.27 per share, representing an increase of 3.3% over that of 2020

HIGHLIGHTS
<p>Hong Kong Businesses</p> <ul style="list-style-type: none"> - Recurrent profit improved from 2020 mainly due to rebound of Domestic patronage with easing COVID-19 situation in the second half of 2021 and the one-off provision made for Shatin to Central Link in 2020 not being repeated in 2021 - Train service delivery and passenger journeys on-time in our heavy rail maintained at 99.9% world-class level - Full Tuen Ma Line opened in June 2021 and enhanced connectivity between the East and West - Invitation received from Government to proceed with detailed planning and design of Hung Shui Kiu Station in May 2021 - Hong Kong property development profit of HK\$9.3 billion mainly derived from LOHAS Park packages 7, 8 and 9. New property packages of THE SOUTHSIDE packages 5 and 6 were tendered out <p>Mainland China and International Businesses</p> <ul style="list-style-type: none"> - Recurrent profit improved with COVID-19 development, with better performance in Mainland China and Australia operations - Full line of Beijing Metro Line 14 and initial section of Beijing Metro Line 17 opened in December 2021 - Took over Mälartåg operations in Sweden in December 2021

HIGHLIGHTS *(continued)***Corporate Strategy and Outlook**

- To further strengthen Board governance and effectiveness, the Board established new Finance and Investment Committee and Technology Advisory Panel and renamed Audit Committee as Audit and Risk Committee. Further, management organisation has been enhanced to deepen accountability and collaboration, and to strengthen “three lines of defence”. Clear environmental, social and governance (“ESG”) objectives have also been embedded into our operations to create value for all of our stakeholders
- The development of COVID-19 pandemic still remains highly uncertain with the onset of Omicron wave of infections and its adverse impact on our businesses may continue well into 2022
- Hung Hom to Admiralty Section of Shatin to Central Link targeted to open in June/July 2022
- Continue to progress various railway projects under RDS 2014 and property development of Siu Ho Wan Depot
- The Company fully supports Government on its Northern Metropolis Development Strategy (which includes five new railway projects) and the construction of a new Science Park/Pak Shek Kok Station along East Rail Line
- Profit booking from LP10 (LOHAS Park Package 10), SOUTHLAND (THE SOUTHSIDE Package 1) and LA MARINA (THE SOUTHSIDE Package 2) is dependent on construction progress. We are now inviting developers to submit Expression of Interest for the Pak Shing Kok Ventilation Building property development. Subject to market conditions, we will tender out Tung Chung Traction Substation site, Tung Chung East Station Package 1 (subject to our entering into a project agreement with the Government) and Siu Ho Wan Depot Package 1 (subject to our entering into a project agreement with the Government and signing of the land grant) in the coming 12 months or so

The Directors of the Company announce the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

HK\$ million	Year ended 31 December	
	2021	2020
Revenue from Hong Kong transport operations	13,177	11,896
Revenue from Hong Kong station commercial businesses	3,208	3,269
Revenue from Hong Kong property rental and management businesses	5,036	5,054
Revenue from Mainland of China and international railway, property rental and management subsidiaries	25,045	21,428
Revenue from other businesses	383	894
	46,849	42,541
Revenue from Mainland of China property development	353	-
Total revenue	47,202	42,541
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	(6,155)	(6,317)
- Maintenance and related works	(2,339)	(2,085)
- Energy and utilities	(1,801)	(1,671)
- General and administration expenses	(838)	(888)
- Railway support services	(244)	(295)
- Stores and spares consumed	(588)	(572)
- Government rent and rates	(156)	(284)
- Other expenses	(222)	(206)
	(12,343)	(12,318)
Expenses relating to Hong Kong station commercial businesses	(480)	(509)

HK\$ million	Year ended 31 December	
	2021	2020
Expenses relating to Hong Kong property rental and management businesses	(970)	(850)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	(24,155)	(20,895)
Expenses relating to other businesses	(570)	(2,496)
Project study and business development expenses	(312)	(279)
	(38,830)	(37,347)
Expenses relating to Mainland of China property development	(224)	(13)
Operating expenses before depreciation, amortisation and variable annual payment	(39,054)	(37,360)
Operating profit / (loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	8,019	5,194
- Arising from Mainland of China property development	129	(13)
	8,148	5,181
Hong Kong property development profit from share of surplus and interest in unsold properties	11,097	6,491
Loss from fair value measurement of investment properties	(1,616)	(9,190)
Operating profit before depreciation, amortisation and variable annual payment	17,629	2,482
Depreciation and amortisation	(5,430)	(5,365)
Variable annual payment	(260)	(238)
Share of profit of associates and joint ventures	968	605
Profit / (loss) before interest, finance charges and taxation	12,907	(2,516)
Interest and finance charges	(967)	(1,004)
Profit / (loss) before taxation	11,940	(3,520)
Income tax	(2,261)	(1,301)
Profit / (loss) for the year	9,679	(4,821)
Attributable to:		
- Shareholders of the Company	9,552	(4,809)
- Non-controlling interests	127	(12)
Profit / (loss) for the year	9,679	(4,821)
Profit / (loss) for the year attributable to shareholders of the Company:		
- Arising from recurrent businesses	1,808	(1,126)
- Arising from property development	9,343	5,507
- Arising from underlying businesses	11,151	4,381
- Arising from fair value measurement of investment properties	(1,599)	(9,190)
	9,552	(4,809)
Earnings / (loss) per share:		
- Basic	HK\$1.55	(HK\$0.78)
- Diluted	HK\$1.54	(HK\$0.78)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

HK\$ million	Year ended 31 December	
	2021	2020
Profit / (loss) for the year	9,679	(4,821)
Other comprehensive income / (loss) for the year (after taxation and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Surplus / (loss) on revaluation of self-occupied land and buildings	119	(274)
- Remeasurement of net asset/liability of defined benefit schemes	253	752
	372	478
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of subsidiaries, associates and joint ventures outside Hong Kong	279	1,282
- non-controlling interests	3	13
- Cash flow hedges: net movement in hedging reserve	(143)	(73)
	139	1,222
	511	1,700
Total comprehensive income / (loss) for the year	10,190	(3,121)
Attributable to:		
- Shareholders of the Company	10,060	(3,122)
- Non-controlling interests	130	1
Total comprehensive income / (loss) for the year	10,190	(3,121)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$ million	At 31 December 2021	At 31 December 2020
Assets		
Fixed assets		
- Investment properties	84,801	86,058
- Other property, plant and equipment	101,517	101,999
- Service concession assets	34,714	32,875
	<u>221,032</u>	<u>220,932</u>
Goodwill and property management rights	69	79
Property development in progress	11,215	11,942
Deferred expenditure	1,964	1,116
Interests in associates and joint ventures	12,442	11,592
Deferred tax assets	599	470
Investments in securities	1,479	468
Properties held for sale	639	1,800
Derivative financial assets	363	480
Stores and spares	2,129	2,014
Debtors and other receivables	14,797	13,313
Amounts due from related parties	4,384	5,462
Cash, bank balances and deposits	20,970	20,906
	<u>292,082</u>	<u>290,574</u>
Liabilities		
Short-term loans	1,650	3,357
Creditors, other payables and provisions	40,077	36,837
Current taxation	2,381	1,004
Amounts due to related parties	479	453
Loans and other obligations	42,102	46,983
Obligations under service concession	10,231	10,295
Derivative financial liabilities	561	381
Loans from holders of non-controlling interests	146	158
Deferred tax liabilities	14,418	14,125
	<u>112,045</u>	<u>113,593</u>
Net assets	<u>180,037</u>	<u>176,981</u>
Capital and reserves		
Share capital	60,184	59,666
Shares held for Executive Share Incentive Scheme	(245)	(262)
Other reserves	119,775	117,384
Total equity attributable to shareholders of the Company	<u>179,714</u>	<u>176,788</u>
Non-controlling interests	<u>323</u>	<u>193</u>
Total equity	<u>180,037</u>	<u>176,981</u>

Notes:

1. AUDITOR'S REPORT

The consolidated accounts for the year ended 31 December 2021 have been audited in accordance with Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Company's auditor, KPMG. Unmodified auditor's report of KPMG is included in the annual report to be sent to shareholders. The consolidated accounts have also been reviewed by the Company's Audit and Risk Committee.

The financial figures in respect of the Group's consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2021, as set out in this preliminary announcement, have been compared by KPMG to the amounts set out in the Group's audited consolidated accounts for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by KPMG on this announcement.

2. BASIS OF PREPARATION

This preliminary announcement of the Company's annual results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the financial years ended 31 December 2021 and 2020 included in this preliminary announcement of the annual results does not constitute the Company's statutory annual consolidated accounts for those years but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the accounts for the year ended 31 December 2020 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the accounts for the year ended 31 December 2021 in due course.
- The Company's auditor, KPMG, has reported on those consolidated accounts of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

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

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these have had a material effect on the Group's results and financial position.

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

Certain comparative figures have been reclassified to conform to current year's presentation.

3. RETAINED PROFITS

The movements of the retained profits during the years ended 31 December 2021 and 2020 are as follows:

HK\$ million	Year ended 31 December	
	2021	2020
Balance as at 1 January	113,243	124,880
Profit / (loss) for the year attributable to shareholders of the Company	9,552	(4,809)
Other comprehensive income arising from remeasurement of net asset/liability of defined benefit schemes	253	752
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	(3)	(2)
Dividends declared and approved, net of scrip dividend for shares held for Executive Share Incentive Scheme	(7,606)	(7,578)
Balance as at 31 December	<u>115,439</u>	<u>113,243</u>

4. HONG KONG PROPERTY DEVELOPMENT PROFIT FROM SHARE OF SURPLUS AND INTEREST IN UNSOLD PROPERTIES

Hong Kong property development profit from share of surplus and interest in unsold properties comprises:

HK\$ million	Year ended 31 December	
	2021	2020
Share of surplus, income and interest in unsold properties from property development	11,048	6,481
Agency fee and other income from West Rail property development	67	42
Overheads and miscellaneous studies	(18)	(32)
	<u>11,097</u>	<u>6,491</u>

5. LOSS FROM FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES

Loss from fair value measurement of investment properties comprises:

HK\$ million	Year ended 31 December	
	2021	2020
Loss from fair value remeasurement on investment properties	(2,161)	(9,190)
Gain from fair value measurement of investment properties on initial recognition from property development	545	-
	<u>(1,616)</u>	<u>(9,190)</u>

6. INCOME TAX

Income tax in the consolidated profit and loss account represents:

HK\$ million	Year ended 31 December	
	2021	2020
Current tax		
- Hong Kong Profits Tax	1,803	958
- Tax outside Hong Kong	375	328
	<u>2,178</u>	<u>1,286</u>
Less: Utilisation of government subsidy for Shenzhen Metro Line 4 operation	-	(28)
	<u>2,178</u>	<u>1,258</u>
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	36	(20)
- depreciation allowances in excess of related depreciation	302	356
- revaluation of properties	(30)	(1)
- provisions and others	(225)	(292)
	<u>83</u>	<u>43</u>
	<u>2,261</u>	<u>1,301</u>

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 2021 is calculated at 16.5% (2020: 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 2021 and 2020.

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% (2020: 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 11A to this announcement for details.

7. DIVIDEND

During the year, ordinary dividends paid and proposed to shareholders of the Company comprise:

HK\$ million	Year ended 31 December	
	2021	2020
Ordinary dividends attributable to the year		
- Interim ordinary dividend declared and paid of HK\$0.25 (2020: HK\$0.25) per share	1,548	1,545
- Final ordinary dividend proposed after the end of the reporting period of HK\$1.02 (2020: HK\$0.98) per share	6,317	6,057
	7,865	7,602
Ordinary dividends attributable to the previous year		
- Final ordinary dividend of HK\$0.98 (2020: HK\$0.98 per share attributable to year 2019) per share approved and paid during the year	6,060	6,036

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.

The Board has recommended to pay a final dividend of HK\$1.02 per share and proposes that a scrip dividend option will be offered to all shareholders of the Company (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). Subject to the approval of the shareholders at the Company's forthcoming Annual General Meeting, the proposed 2021 final dividend, with a scrip dividend option, is expected to be distributed on 19 July 2022 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 6 June 2022.

8. EARNINGS / (LOSS) PER SHARE

The calculation of basic earnings / (loss) per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2021 of HK\$9,552 million (2020: loss of HK\$4,809 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year amounting to 6,181,426,675 shares (2020: 6,162,529,663 shares).

The calculation of diluted earnings / (loss) per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2021 of HK\$9,552 million (2020: loss of HK\$4,809 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme amounting to 6,187,030,555 shares (2020: 6,162,529,663 shares). For the year ended 31 December 2020, the effect of the Company's share option scheme (1,055,658 shares) and Executive Share Incentive Scheme (5,836,013 shares) are anti-dilutive since they would result in a decrease in the loss per share.

Both basic and diluted earnings per share would have been HK\$1.80 (2020: HK\$0.71), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK\$11,151 million (2020: HK\$4,381 million).

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 Mainland of China at Lo Wu and Lok Ma Chau, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.
- (ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking 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 services 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, investment in Octopus Holdings Limited and the provision of project management services to the Government of the Hong Kong Special Administrative Region (the "HKSAR Government" or "Government").

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

HK\$ million	Revenue		Contribution to profit / (loss)	
	Year ended 31 December 2021	2020	Year ended 31 December 2021	2020
Hong Kong transport services				
- Hong Kong transport operations	13,177	11,896	(4,262)	(5,408)
- Hong Kong station commercial businesses	3,208	3,269	2,488	2,502
Hong Kong property rental and management businesses	5,036	5,054	4,048	4,185
Mainland of China and international railway, property rental and management businesses	25,045	21,428	622	261
Mainland of China property development	353	-	129	(13)
Other businesses	383	894	(255)	(1,670)
	47,202	42,541	2,770	(143)
Hong Kong property development			11,097	6,491
Project study and business development expenses			(312)	(279)
Loss from fair value measurement of investment properties			(1,616)	(9,190)
Share of profit of associates and joint ventures			968	605
Profit / (loss) before interest, finance charges and taxation			12,907	(2,516)
Interest and finance charges			(967)	(1,004)
Income tax			(2,261)	(1,301)
Profit / (loss) for the year			9,679	(4,821)

Profit attributable to shareholders of the Company arising from property development for the year ended 31 December 2021 of HK\$9,343 million (2020: HK\$5,507 million) represents Hong Kong property development profit of HK\$11,097 million (2020: HK\$6,491 million), Mainland of China property development profit of \$129 million (2020: loss of \$13 million) and net of the related interest, finance charges and income taxes of HK1,883 million (2020: HK\$971 million).

Loss attributable to shareholders of the Company arising from fair value measurement of investment properties for the year ended 31 December 2021 of HK\$1,599 million (2020: HK\$9,190 million) represents loss from fair value measurement of investment properties of HK\$1,616 million (2020: HK\$9,190 million) and net of related income taxes of HK\$17 million (2020: HK\$nil).

HK\$ million	Assets		Liabilities	
	At 31 December 2021	2020	At 31 December 2021	2020
Hong Kong transport services				
- Hong Kong transport operations	132,774	131,291	18,252	18,159
- Hong Kong station commercial businesses	3,769	3,517	1,643	2,090
Hong Kong property rental and management businesses	85,451	86,475	2,645	2,588
Mainland of China and international railway, property rental and management businesses	29,418	28,253	11,129	11,205
Mainland of China property development	5,703	4,982	950	875
Other businesses	3,201	4,418	2,357	3,417
Hong Kong property development	16,101	16,929	17,137	12,924
	276,417	275,865	54,113	51,258
Unallocated assets / liabilities	15,665	14,709	57,932	62,335
Total	292,082	290,574	112,045	113,593

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, investment in bank medium-term notes, 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 2021, revenue from two customers (2020: two customers) of the Mainland of China and international railway, property rental and management businesses segment has exceeded 10% of the Group's revenue. Approximately 15.10% and 11.75% (2020: 16.49% and 10.60%) of the Group's total revenue was attributable to each of the two customers respectively.

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 ventures ("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 interests in associates and joint ventures.

HK\$ million	Revenue from external customers		Specified non-current assets	
	Year ended 31 December 2021	2020	At 31 December 2021	2020
Hong Kong SAR (place of domicile)	21,755	21,043	227,462	227,537
Australia	14,360	12,482	1,169	1,309
Mainland of China and Macao SAR	3,077	1,896	17,360	15,935
Sweden	5,489	4,747	696	819
United Kingdom	2,521	2,373	35	61
	25,447	21,498	19,260	18,124
	47,202	42,541	246,722	245,661

10. RAILWAY CONSTRUCTION PROJECTS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“High Speed Rail” or “HSR”) Project

(a) HSR Preliminary Entrustment Agreement

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

(b) HSR Entrustment Agreement

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the “**HSR Entrustment Agreement**”). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the “**Entrustment Cost**”) and for paying to the Company a fee in accordance with an agreed payment schedule (the “**HSR Project Management Fee**”) (subsequent amendments to these arrangements are described below). As of 31 December 2021, 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 10A(c)(iv) below), up to the date of the annual report, no claim has been received from the HKSAR Government.

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

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

- the HSR 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 10A(c) and (e) below.

(c) HSR Agreement

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

- (i) The HKSAR Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion (the portion of the entrustment cost (up to HK\$84.42 billion) that exceeds HK\$65 billion being the "**Current Cost Overrun**");
- (ii) The Company will, if the project exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "**Further Cost Overrun**") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);
- (iii) The Company will pay a special dividend in cash of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share in cash in each tranche) ("**Special Dividend**"). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

- (iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement ("**Entrustment Agreements**") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the HSR Entrustment Agreement, the Liability Cap is equal to the HSR Project Management Fee and any other fees that the Company receives under HSR Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK\$4.94 billion to up to HK\$6.69 billion as the HSR Project Management Fee is increased in accordance with the HSR Agreement (as it will be equal to the increased HSR Project Management Fee under the HSR Entrustment Agreement of HK\$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:
- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
 - seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
 - if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;
- (v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in HSR Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK\$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under 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 10A(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 10A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 31 December 2021 and up to the date of the annual report; (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and
 - (iii) where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).
- (g) Total HSR Project Management Fee and the additional fees referred to above, of HK\$6,548 million in aggregate, have been recognised in consolidated profit and loss account in the prior years.

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 reimbursable by the HKSAR Government to the Company. During the year ended 31 December 2021, HK\$124 million (2020: HK\$122 million) of such costs were incurred by the Company, which are payable by the HKSAR Government. As at 31 December 2021, the amount of such costs which remained outstanding from the HKSAR Government was HK\$246 million (as at 31 December 2020: HK\$1,035 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 2021, the Company has received full payment of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. During the year ended 31 December 2021, no Original PMC was recognised in the consolidated profit and loss account (2020: HK\$565 million was recognised). The total Original PMC of HK\$7,893 million has been fully recognised in the consolidated profit and loss account in previous years.

(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 10B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company had 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 10B(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 10B(c)(iii) below) and any Additional PMC for the Company as further detailed in note 10B(b)(ii) below.

(ii) *Additional PMC*

As detailed in note 10B(b)(i) above and as previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events. 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 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 will continue, to comply with its project management obligations under the SCL EA3 and has met, and will 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 10B(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 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 2021, the provision utilised amounted to HK\$533 million (2020: HK\$45 million) and no provision was written back (2020: HK\$nil). The provision of HK\$793 million (2020: HK\$1,326 million) (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, there were allegations in 2018 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.

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 each of the First Hung Hom Incident and the Second Hung Hom Incident, the Company has submitted to the HKSAR Government proposals for verification of the relevant as-constructed conditions and workmanship quality.

(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). On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

On 26 March 2019, the HKSAR Government published the redacted interim report of the COI in which the COI 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.

On 18 July 2019, the Company 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.

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions 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 12 May 2020, the HKSAR Government published the final report of the COI in which the COI determined that it is fully satisfied that, with the suitable measures in place, the station box, NAT, SAT and HHS structures will be safe and also fit for purpose. The suitable measures for these structures were completed in 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 10B(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 2021, the provision utilised amounted to HK\$206 million (2020: HK\$566 million) and no provision was written back (2020: HK\$nil). The provision of HK\$944 million (2020: HK\$1,150 million) (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.

(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 10B(c)(i) above), up to the date of the annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

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 2021 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 the supplemental service concession agreement (“SSCA1-SCL”) signed with KCRC.

On 21 June 2021, 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 the entire Tuen Ma Line in substantially the same manner as the existing railway network for a period of two years from 27 June 2021 including the supplemental service concession agreement (“SSCA2-SCL”) signed with KCRC. The SSCA2-SCL replaced the SSCA1-SCL. Prior to the full opening of the SCL, 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 SCL (which is intended to replace the SSCA2-SCL, except for any provisions that are expressly agreed to remain in effect thereafter).

11. DEBTORS AND CREDITORS

A As at 31 December 2021, the Group’s debtors and other receivables amounted to HK\$14,797 million (2020: HK\$13,313 million), of which debtors accounted for HK\$4,297 million (2020: HK\$3,782 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 60 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are mainly due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. The ageing of debtors by due dates as at 31 December 2021 is analysed as follows:

HK\$ million	At 31 December	
	2021	2020
Amounts not yet due	3,779	3,343
Overdue by within 30 days	283	209
Overdue by more than 30 days but within 60 days	62	80
Overdue by more than 60 days but within 90 days	34	24
Overdue by more than 90 days	139	126
Total debtors	4,297	3,782
Other receivables and contract assets	10,500	9,531
	14,797	13,313

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

Based on the strength of advice from external senior counsels and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates (“TRCs”) amounting to HK\$1,816 million and HK\$462 million in 2017 and 2018 respectively. The purchases of TRCs do not prejudice the Company’s tax position and the purchased TRCs were included in debtors and other receivables in the Group’s consolidated statement of financial position. No additional tax provision has been made during the years ended 31 December 2020 and 2021 in respect of the above notices of assessment/additional assessment.

B As at 31 December 2021, creditors, other payables and provisions amounted to HK\$40,077 million (2020: HK\$36,837 million), of which creditors and accrued charges amounted to HK\$18,620 million (2020: HK\$19,419 million). As at 31 December 2021, the analysis of creditors by due dates is as follows:

HK\$ million	At 31 December	
	2021	2020
Due within 30 days or on demand	7,631	8,024
Due after 30 days but within 60 days	1,754	1,450
Due after 60 days but within 90 days	730	638
Due after 90 days	4,088	4,844
	14,203	14,956
Rental and other refundable deposits	2,818	2,989
Accrued employee benefits	1,599	1,474
	18,620	19,419

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2021. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 2,650,000 Ordinary Shares of the Company for a total consideration of approximately HK\$116 million during the year ended 31 December 2021.

13. CHARGE ON GROUP ASSETS

As at 31 December 2021, MTR Corporation (Shenzhen) Limited, a wholly-owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Line 4 as security for the RMB988 million (HK\$1,208 million) bank loan facility granted to it.

As at 31 December 2021, MTR CREG Metro (Shenzhen) Company Limited, a subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue in relation to Shenzhen Metro Line 13 as security for the RMB3,200 million (HK\$3,914 million) bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2021.

14. ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 25 May 2022. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 13 April 2022.

15. CORPORATE GOVERNANCE

During the year ended 31 December 2021, the Company complied with the code provisions in force at the material time as set out in Appendix 14 (Corporate Governance Code and Corporate Governance Report) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

During the year, the Company appointed an independent consultant to undertake a Board Evaluation exercise with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the new corporate strategy. Based on the findings of this exercise and the consultant's recommendations, a new Finance & Investment Committee and a new Technology Advisory Panel were established with effect from 1 February 2022 and the roles and responsibilities of various existing Board Committees were expanded or adjusted slightly at the same time to ensure the Committee structure is a better fit with and will allow the Board adequate oversight of the implementation of the new corporate strategy.

In addition, for the reasons highlighted below, the Board proposes to increase the cap on Directors' fees contained in the Company's Articles of Association to HK\$11,000,000 in order to allow flexibility for the Company in reviewing the Directors' fees and to enable the Company to bring the Directors' fees more in line with the market so as to allow the Company to continue to attract Directors of a suitable calibre:

1. existing Article 100 of the Company's Articles of Association provides that the total fees paid to Directors for performing their services as Directors must not exceed (i) HK\$10,000,000 a year (the "Cap"); or (ii) any greater amount fixed by ordinary resolution passed at a general meeting.
2. the existing Cap was last adjusted and approved by Shareholders at the Company's 2014 Annual General Meeting and the fees payable to each Director were last adjusted in January 2017. Since 2014 (a) the size of the Board (excluding the Executive Director who is also a member of the Executive Directorate) has increased (from 14 to 19); (b) a new Board Advisory Panel has been established in February 2022; and (c) there has generally been an upward trend in terms of the fees paid to Directors of comparable companies.
3. the relevant Board members are currently not being remunerated for their advisory role on the Council of the MTR Academy. Currently the annual total fees payable to Directors (excluding the Executive Director who is also a member of the Executive Directorate) has reached HK\$9,970,000, which is very close to the Cap.

The Company has no immediate plan to adjust the Directors' fees under the existing Non-executive Director remuneration framework.

The proposed amendment 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 the 2021 Annual Report.

16. PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The Annual Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in mid April 2022.

KEY STATISTICS

	Year ended 31 December	
	2021	2020
Total passenger boardings for Hong Kong transport operations (in millions)		
- Domestic Service	1,421.7	1,145.0
- Cross-boundary Service	0.5	7.6
- High Speed Rail (Hong Kong Section)	-	1.0
- Airport Express	2.2	3.1
- Light Rail and Bus	191.9	154.0
Average number of passengers (in thousands)		
- Domestic Service (weekday)	4,188.8	3,406.0
- Cross-boundary Service (daily)	1.3	20.9
- High Speed Rail (Hong Kong Section) (daily)	-	35.6 ⁽¹⁾
- Airport Express (daily)	5.9	8.4
- Light Rail and Bus (weekday)	548.2	438.0
EBITDA margin [^]		
- Including Mainland of China and international subsidiaries	17.3%	12.2%
- Excluding Mainland of China and international subsidiaries ^δ	32.7%	22.1%
EBIT margin [*]		
- Including Mainland of China and international subsidiaries	5.2%	(1.0%)
- Excluding Mainland of China and international subsidiaries ^φ	7.8%	(3.2%)

⁽¹⁾ Average of 1 January 2020 to 29 January 2020

[^] Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment as a percentage of total revenue

^δ Excluding the relevant revenue and expenses of Mainland of China and international subsidiaries of HK\$25,398 million and HK\$24,379 million (2020: HK\$21,428 million and HK\$20,908 million) respectively

^{*} Profit / (loss) before interest, finance charges and taxation (excluding Hong Kong property development profit from share of surplus and interest in unsold properties, loss from fair value measurement of investment properties and share of profit of associates and joint ventures) as a percentage of total revenue

^φ Excluding the relevant revenue, expenses, depreciation and amortisation of Mainland of China and international subsidiaries of HK\$25,398 million, HK\$24,379 million and HK\$268 million (2020: HK\$21,428 million, HK\$20,908 million and HK\$272 million) respectively

MANAGEMENT REVIEW AND OUTLOOK

It is my pleasure to report on the 2021 performance of MTR Corporation Limited. It was a year that saw the Company make solid progress on a number of important developments for the future and drive improved financial performance, all while operating in challenging business environments that continue to be shaped and reshaped by the COVID-19 pandemic.

Boundary closures and travel restrictions remained in effect throughout the year, drastically reducing the number of cross-boundary trips and travellers to Hong Kong. This had inevitable impacts on fare revenue and rental revenue. However, we booked strong property profits during the year while maintaining sound operational performance throughout our local railway network.

We also made positive headway in the implementation of our Corporate Strategy, "Transforming the Future". Changes were introduced in 2020 to strengthen the Company by improving accountability and enhancing collaboration via the introduction of a matrix organisation. The intended result is an organisation that can drive sustainable growth through operational

excellence, technology applications and innovation. Meanwhile, we worked to define our long-term environmental, social and governance (“ESG”) objectives. In addition, we made progress on the integration of a new management organisation, which will help strengthen our “three lines of defence”.

We took encouraging strides in 2021 in advancing and growing our Corporate Strategy’s three main pillars: our “Hong Kong Core”, comprising our local railway network, station commercial and property businesses; “Mainland China and International Businesses”; and “New Growth Engine”, i.e., new growth avenues in railway technologies, smart service and mobility. The launch of our “Go Smart Go Beyond” campaign in 2021 underscores the importance of the development of new lines, innovation, technology and sustainability as our future focuses.

The full Tuen Ma line, the longest railway line in Hong Kong, commenced service on 27 June 2021. With a total length of 56 kilometres and 27 stations, the Tuen Ma Line connects many more communities throughout the territory with convenient, efficient and environmentally friendly transport, and it represents another important milestone in the development of the city’s railway network.

MTR continued to achieve 99.9% service performance in Hong Kong during the year as the Company strove to maintain excellence in all facets of its operations despite on-going challenges related to the pandemic. Customer experience remained a key area of focus for the Company, which continued to develop its MTR Mobile app in ways that make travel and shopping with MTR even more convenient, user-friendly and rewarding. We also implemented a number of smart asset management technologies to enhance safety and reliability throughout our network.

In the first half of 2021, we were pleased to award THE SOUTHSIDE Package 5 and Package 6, both located in Wong Chuk Hang. Together, these projects will add over a thousand new residential units to the market.

One of our most important railway projects is the Shatin to Central Link, which moved closer to full realisation with the Hung Hom to Admiralty Section 97.2% complete at the end of 2021. We are working towards opening the cross-harbour extension of the East Rail Line, targeting June/July 2022.

MTR also made good progress on railway projects under Government’s Railway Development Strategy 2014 (“RDS 2014”). The Tung Chung Line Extension and Tuen Mun South Extension (the future Tuen Ma Line Extension) were gazetted under the Railway Ordinance in December 2021 and January 2022, respectively. We continue to progress the design of the new Kwu Tung Station on the East Rail Line and the 10.7-km Northern Link as well as the Hung Shui Kiu Station project. We are in discussion with Government regarding the terms and conditions pursuant to which we will undertake these RDS 2014 projects.

A number of our property development projects reached important milestones in 2021. The Town Planning Board approved the Layout Plan for the Siu Ho Wan Depot topside development in December 2021. Detailed design and advance works have also commenced. The tender of Siu Ho Wan Depot Topside Property Development Package 1 (i.e., Phase 1 Package 1) will be subject to the signing of a project agreement with Government and the land grant. The Tung Chung East Station Package 1 site is expected to be tendered in 2022 subject to entering into a project agreement with Government. We are now inviting developers to submit Expression of Interest for the Pak Shing Kok Ventilation Building property development.

Outside Hong Kong, the full Beijing Metro Line 14 (“BJL14”) and the initial section of Beijing Metro Line 17 (“BJL17”) commenced service in December 2021. Construction work for Shenzhen Metro Line 13 continued with several major contracts procured. We took over operations of the Mälartåg regional traffic in Sweden for an interim period of two years. We also continued to explore railway and transit-oriented development (“TOD”) and other growth opportunities in Mainland China and overseas.

Our financial results in 2021 continued to be affected by COVID-19 and its impact on cross-boundary traffic and rentals, although recovering domestic patronage and property development profit offset this to some degree. Profit attributable to equity shareholders from recurrent businesses was HK\$1,808 million, while property development profit increased 69.7% to HK\$9,343 million. As a result, profit attributable to shareholders from underlying businesses increased 154.5% to HK\$11,151 million. Including the loss arising from fair value measurement of investment properties, net profit attributable to the shareholders of the Company was HK\$9,552 million, representing earnings per share of HK\$1.55.

Your Board has proposed a final ordinary dividend of HK\$1.02 per share, which together with the interim dividend of HK\$0.25 per share brings the full-year dividend to HK\$1.27 per share, representing an increase of 3.3% compared to 2020.

Subject to the financial performance and future funding needs of the Company, we expect to pay two dividends each financial year with interim and final dividends payable around October and July, respectively, and the interim dividend representing around one-third of the total dividends to be paid for the entire year.

HONG KONG BUSINESSES

MTR's Hong Kong businesses comprise rail and bus services and related station commercial activities (collectively known as "Hong Kong Transport Services") as well as the development, rental and management of the Company's portfolio of railway-linked properties. This "Rail plus Property" business model enables TOD for the benefit of our shareholders, our communities and the Company.

Domestic patronage and fare revenue improved in 2021 compared to 2020. However, commercial and rental revenue remained impacted by the pandemic as a result of the on-going closures of boundaries and transport links.

Hong Kong Transport Services

HK\$ million	Year ended 31 December		Inc./ (Dec.) %
	2021	2020	
Hong Kong Transport Operations			
Total Revenue	13,177	11,896	10.8
Operating Profit/(Loss) before Depreciation, Amortisation and Variable Annual Payment ("EBITDA")	834	(422)	n/m
(Loss)/Profit before Interest, Finance Charges, Taxation and after Variable Annual Payment ("EBIT")	(4,262)	(5,408)	21.2
EBITDA Margin (in %)	6.3%	(3.5)%	n/m
EBIT Margin (in %)	(32.3)%	(45.5)%	13.2% pts

n/m: not meaningful

In 2021, total revenue from Hong Kong transport operations increased by 10.8% to HK\$13,177 million from HK\$11,896 million in 2020. The loss before interest, finance charges, taxation and after the variable annual payment was HK\$4,262 million. These results were primarily due to the continued negative impact of the COVID-19 outbreak, especially on Cross-boundary Service.

Patronage and Revenue

	Patronage In millions		Revenue HK\$ million	
	2021	Inc./ (Dec.) %	2021	Inc./ (Dec.) %
Domestic Service	1,421.7	24.2	11,067	19.9
Cross-boundary Service	0.5	(93.6)	5	(99.0)
High Speed Rail ("HSR")	-	n/m	1,363	6.7
Airport Express	2.2	(30.0)	89	(36.4)
Light Rail and Bus	191.9	24.6	583	21.2
Intercity	-	n/m	-	n/m
	1,616.3	23.3	13,107	12.4
Others			70	(70.0)
Total			13,177	10.8

Total patronage for MTR rail and bus services increased by 23.3% to 1,616.3 million compared to 1,310.8 million in 2020. This was primarily the result of higher patronage for passenger services following improvements in the pandemic situation as a result of the rollout of vaccination programme, relaxation of social distancing and other anti-pandemic measures, and the return of workers and students to offices and schools, respectively. Average weekday patronage increased by 22.4% to 4.75 million. Cross-boundary Service, High Speed Rail ("HSR") and Intercity patronage remained severely impacted by the on-going closures of boundary crossings between Hong Kong and Mainland China. Anti-pandemic measures also continued to affect the number of air passengers and thus Airport Express patronage.

During the year, we strove to offset the impacts of boundary closures and travel restrictions with special offers, fare discounts and non-peak promotions for domestic travel. Many of these were promoted through our popular MTR Mobile app. Despite the suspension of Cross-boundary Service and HSR, MTR strove to keep these services top of mind by hosting community engagement tours of Hong Kong West Kowloon Station and the Shek Kong Stabling Sidings from May to June and October to December 2021.

Market Share

The Company's overall market share of the franchised public transport market in Hong Kong in 2021 improved to 47.3% compared with 45.3% in 2020. This was mainly due to the recovery in domestic patronage, especially commuter trips, and the incremental contribution from the commissioning of the Tuen Ma Line. Our share of cross-harbour traffic was 67.6% compared with 66.1% in 2020. Our share of the cross-boundary business, including HSR and Cross-boundary Service, was 0% due to the continued closures of boundary crossings in 2021. Our share of traffic to and from the airport was 21.6% compared to 16.3% in 2020.

Fare Adjustment, Promotions and Concessions

To help the community ride out the difficulties of the pandemic, we offered a 20% rebate to customers till March 2021, after which a 5% rebate was offered from 1 April to 26 June 2021. Following the revision in June 2021 of the overall fare adjustment rate under the Fare Adjustment Mechanism for 2021/2022, fare was reduced by 1.85% with effect from 27 June 2021. At the same time, we introduced an additional rebate of 3.8% till 1 January 2022, implying that customers could continue to enjoy a saving of about 5% on actual fares. The Company subsequently announced that the rebate of 3.8% was being further extended to late June 2022 to enable a saving of about 5% on actual fares. In line with our ESG objectives to support social inclusion, we also offered on-going fare concessions for the elderly, children, eligible students and persons with disabilities totalling over HK\$2.2 billion during the year.

Service Performance

Demonstrating its commitment to excellence and service reliability, MTR once again achieved the world class 99.9% passenger journeys on-time and train service delivery for its heavy rail network in 2021. Passenger journeys on-time are 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.

MTR ran more than 4,600 train trips per day (and around 760,000 car-km per day) on its heavy rail network and more than 2,600 trips per day (and around 28,000 car-km per day) on its light rail network during the year. In 2021, there were 16 delays (defined as those lasting 31 minutes or more and attributable to factors within the Company's control) on the heavy rail network and no delays of this nature on the light rail network. Regarding an incident in December at Causeway Bay Station when a set of train doors was dislodged after an advertising panel component became displaced, we took swift action to eliminate the risk by removing the concerned type of panels. The Company is also implementing the improvement measures recommended in the investigation report released in January 2022. As always, MTR places the highest priority on passenger safety.

Boosting Passenger Convenience

The full Tuen Ma Line commenced service on 27 June 2021, bringing together the eastern and western halves of the New Territories via the longest railway line in Hong Kong. The Tuen Ma Line greatly enhances the accessibility and connectivity of Hong Kong's railway system and enables residents of Kowloon City and To Kwa Wan to access different parts of Hong Kong conveniently by MTR via new stations. It also reduces journey times, bringing added convenience to our passengers.

Throughout the year we continued to optimise our train services, including non-peak services, to meet the needs of the travelling public.

Greater Comfort for Passengers

We continued to upgrade our fleet in 2021 for asset replacement and service enhancement purposes. In total, 93 new heavy rail eight-car trains and 40 new light rail vehicles ("LRVs") have been ordered. For Light Rail, 10 LRVs were delivered in 2021 and 12 new LRVs have been put into passenger service since 2020. For heavy rail, two new eight-car trains were delivered to Hong Kong in 2021, and the new fleet will be put into passenger service in stages over the next few years starting in 2022.

Our chiller replacement programme continued, with Phase 4 completed in April 2021 and Phase 5 scheduled to be completed by 2022. Replacement work for all 154 chillers is expected to be finished by 2023, bringing more comfort to our passengers as well as adding energy efficiency to our stations and depots with savings of 15,000 tonnes of carbon emissions per year.

In 2021, we continued with the project to replace the existing signalling system ("SACEM System") on our four urban lines (Island, Tseung Kwan O, Kwun Tong and Tsuen Wan lines). A total of approximately HK\$2.4 billion has been incurred under such project as at 31 December 2021.

While the replacement of the signalling hardware along our tracks has been progressing well, the contractor is taking longer than expected to complete the software safety assurance processes required by the Corporation, due to the technical complexities involved and the pandemic situation. This work is of critical importance to assure the safety of the new signalling system and we shall continue to work closely with the contractor to progress the project.

Taking into account the significant challenges encountered in the signalling replacement project in terms of programme and costs, we have:

- taken steps to ensure that the programme to bring in the new trains can proceed as planned (by equipping the trains in stages with the SACEM System) and the first of the 93 new trains is expected to come into service in 2022;
- embarked upon certain asset replacements in the SACEM System, so as to be able to continue to provide quality and reliable train services in the short term; and
- started to study options and their associated costs, including the possibility of upgrading the existing SACEM System for the long run as a possible alternative to the full implementation of the new signalling system.

During the year, we also continued to progress a number of important programmes to upgrade our stations and make them even more accessible and comfortable for passengers. Improvements were carried out at University and Diamond Hill stations, and new entrances were opened at Sheung Shui and Austin stations to increase accessibility, improve flow and reduce congestion. We sought to make our stations more accessible by installing new and refurbished escalators and lifts as well as additional seats at platforms. We also continued our programme to install more baby care rooms and free drinking water dispensers in our network.

Smart Mobility for Better Customer Journeys

Innovation and technology are playing increasingly important roles in our operations, shaping our business strategies and changing how we engage and serve our customers. In 2021, MTR launched its “Go Smart Go Beyond” campaign, which articulates the Company’s efforts to build a more connected, inclusive, community-centric tomorrow through new technology and environmentally and socially friendly sustainability practices.

During the year, we enhanced our MTR Mobile app with a host of new functions to help our customers stay abreast of important transport information and enjoy added convenience while travelling through the MTR network. Customers can now use MTR Mobile’s new “Next Bus” function to see the estimated arrival times of public franchise buses and green minibuses in addition to MTR buses, and they can also book taxis with the “Book Taxi” function. Together, these new features allow customers to complete their trip planning and access information on a single platform. New QR code ticketing gives customers new choices to use e-payment platforms at station entry and exit gates. Other innovative new smart mobility features - including the “Train Car Loading Indicator”, enhancement of the “Next Train” function to include more lines, and extension of coverage for the “Waiting Time Indicator” function to include other usually busy platforms - have been well received by customers.

We aim to make commuter journeys on MTR and other modes of public transport smarter, easier and more convenient. The Company now holds approximately 64% of the shares of Octopus Holdings Limited (“OHL”) after acquiring about 6.6% of the shares from New World First Bus and Citybus on 24 January 2022. The acquisition is a more than promising investment for the Corporation, and it also means a closer business relationship between MTR and OHL.

Smart Operations and Maintenance

“Go Smart Go Beyond” also informs our approach to railway operations and maintenance. During the year, we continued to integrate the latest smart technologies into our operations to ensure world-class rail service and efficiency. An example is Smart Train Planning, our award-winning cloud-based AI platform that allows us to generate optimised train deployment, maintenance and train assignment schedules. Meanwhile, trials continue for a Smart Train Roof and Pantograph Monitoring System along the Tuen Ma Line, which automatically takes images of train pantographs and roofs so that maintenance crews can conduct immediate fleet checks remotely via web access.

Station Commercial Businesses

HK\$ million	Year ended 31 December		Inc./ (Dec.) %
	2021	2020	
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	1,594	2,021	(21.1)
Advertising Revenue	894	516	73.3
Telecommunication Income	631	640	(1.4)
Other Station Commercial Income	89	92	(3.3)
Total Revenue	3,208	3,269	(1.9)
EBITDA	2,728	2,760	(1.2)
EBIT	2,488	2,502	(0.6)
EBITDA Margin (in %)	85.0%	84.4%	0.6% pt.
EBIT Margin (in %)	77.6%	76.5%	1.1% pts.

In 2021, total revenue from all Hong Kong station commercial activities decreased by 1.9% to HK\$3,208 million. This was mainly attributable to the loss of rental revenue resulting from the on-going suspension of cross-boundary rail services and station closures, rental concessions granted to other station shop tenants who have been affected by the pandemic, and less favourable rental reversion rates, all partially mitigated by the increase in advertising revenue.

Rental revenue from station shops decreased by 21.1% to HK\$1,594 million. To retain and attract tenants, we continued to offer flexible and/ or shorter-term leases, particularly to small to medium tenants. Rental reversion and average occupancy rates in 2021 for station retail were approximately -17.0% and 98.0%, respectively. Rental reversions for Duty Free Shops were adversely affected due to the challenging market conditions.

During the year, we continued to seek innovative ways to serve our customers under the new normal. This included a collaboration with Kerry e-Commerce on the launch of a new online-to-offline ("O2O") retail solution that enables customers to place online orders for products from quality partner brands and pick up such products in digital lockers at designated stations within our railway network.

As at 31 December 2021, the lease expiry profile of our station kiosks (including Duty Free shops) by area occupied was such that approximately 45% will expire in 2022, 26% in 2023, 22% in 2024, and 7% in 2025 and beyond.

In terms of trade mix, food and beverage accounted for approximately 39% of the leased area of our station kiosks (excluding Duty Free shops), followed by cake shops at 12%, convenience stores at 12%, passenger services at 10% and others at 27%.

Advertising revenue increased by 73.3% to HK\$894 million in 2021 on the back of gradual recovery in the domestic retail market. Advertising spend rose in the second half of the year as the pandemic remained under relative control during these six months and Government rolled out its Consumption Voucher Scheme, which stimulated local consumer spending. To drive revenue in an uncertain economy, we continued to design on-target sales packages and deepen integration with the MTR Mobile app to provide more O2O solutions for advertisers. We also continued the digital transformation of our advertising media by launching new digital formats and customising digital solutions with real-time dynamic content, which enabled us to capture a sizeable share of increased spending by advertisers.

Telecommunications revenue was HK\$631 million in 2021, representing a 1.4% decrease compared to 2020. In September 2021, we completed the installation of a new commercial telecom system at 31 stations. We also continued to help telecom operators launch 5G services. As at the end of 2021, 5G services were available at 70 stations. In addition, a new business line,

a data centre located at a partnership site in Tseung Kwan O, will be ready for service in the first quarter of 2022.

Property Businesses

Property Rental and Management

HK\$ million	Year ended		Inc./ (Dec.) %
	2021	2020	
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	4,787	4,817	(0.6)
Revenue from Property Management	249	237	5.1
Total Revenue	5,036	5,054	(0.4)
EBITDA	4,066	4,204	(3.3)
EBIT	4,048	4,185	(3.3)
EBITDA Margin (in %)	80.7%	83.2%	(2.5)% pts.
EBIT Margin (in %)	80.4%	82.8%	(2.4)% pts.

Property rental revenue decreased by 0.6% year on year to HK\$4,787 million in 2021. Revenue was impacted by rental concessions offered to tenants due to the pandemic, which are granted on a case-by-case basis and amortised to the profit and loss account over the remaining lease terms of the respective units. Rental concessions were partially offset by full-year contributions from the newly opened The LOHAS as well as Telford Plaza II in Kowloon Bay and PopCorn 2 in Tseung Kwan O; the remaining economic interests of the latter two properties were fully acquired in 2020. MTR shopping malls recorded a rental reversion of -8.6% and an average occupancy rate of 98%. The Company's 18 floors in Two International Finance Centre had an annual average occupancy rate of 98%.

The lease expiry profile of our shopping malls by area occupied was such that approximately 34% will expire in 2022, 28% in 2023, 21% in 2024, and 17% in 2025 and beyond.

In terms of trade mix as at 31 December 2021, food and beverage accounted for approximately 29% of the leased area of our shopping malls, followed by services (23%), fashion, beauty and accessories (22%), leisure and entertainment (17%), and department stores and supermarkets (9%).

Although retail sentiment generally improved in 2021, mall traffic and rentals remained sluggish compared to pre-pandemic levels due to the lack of inbound tourism and changing retail behaviour among local customers. To combat this, we leveraged the MTR Mobile app to apply targeted marketing according to shopper behaviour to stimulate spending. We also introduced "eVouchers" that allow customers to redeem and use electronic cash vouchers for MTR Malls and station shops without queuing for physical vouchers. As always, we continued to review our trade mix to ensure it is up to date with current trends and demographics.

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

Property management revenue in Hong Kong increased by 5.1% to HK\$249 million compared to 2020.

Property Development and Tendering

Hong Kong property development profit for the year was HK\$9,277 million, which was primarily due to the proceeds from LOHAS Park Package 7, Package 8 and Package 9.

Pre-sale activities continued throughout the year for several important projects. As at 31 December 2021, SOUTHLAND (THE SOUTHSIDE Package 1) and La Marina (THE SOUTHSIDE Package 2) were 78% and 76% sold, respectively, while LP10 (LOHAS Park Package 10) was 87% sold. All 1,653 units of MARINI, GRAND MARINI and OCEAN MARINI (LOHAS Park Package 9) and 1,422 units of SEA TO SKY (LOHAS Park Package 8) have been sold.

In April 2021, our last package at THE SOUTHSIDE, THE SOUTHSIDE Package 6 (750 units), was awarded to a subsidiary of Wheelock Properties Limited. In January 2021, THE SOUTHSIDE Package 5 (1,050 units) was awarded 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. We invited tenders for the Tung Chung Traction Substation property development project and received five submissions on 28 October 2021. However, we decided not to accept any of the tender submissions and will retender the project in due course.

We continue to assess the issue of concrete quality at THE PAVILIA FARM III and are ensuring that New World Development Company Limited (“the Developer”) takes all necessary actions to ensure that the project meets its design and statutory requirements. As a leading provider of transport services and rail-related property developments, MTR’s number one concern is safety, and we are urging the Developer to implement the statutorily approved remedial measures as soon as possible. We are also asking that the Developer addresses the interests of affected purchasers and takes follow-up action as needed.

GROWING OUR HONG KONG BUSINESSES

In 2021, MTR made substantial progress on a number of important railway and property projects in its core market of Hong Kong that will provide even more convenient transport links, residential units that will help meet the city’s demand for quality housing, and attractive retail developments that will serve the needs of communities throughout our network.

Shatin to Central Link

Upon its completion, the Shatin to Central Link, a project managed by MTR on behalf of Government, will greatly expand Hong Kong’s railway coverage and reduce travel times between major population centres. In June 2021, service commenced on the full Tuen Ma Line, the longest railway line in Hong Kong, which also signified the completion of the Tai Wai to Hung Hom Section of the Shatin to Central Link.

As at 31 December 2021, the East Rail Line cross-harbour extension – the Hung Hom to Admiralty Section of the Shatin to Central Link – was 97.2% complete. To ensure compatibility between the existing East Rail Line and this new cross-harbour extension, upgrade works on a new signalling system for the East Rail Line have been carried out, and the new signalling system and the first of the new fleet of trains were commissioned on 6 February 2021. The commissioning of the Hung Hom to Admiralty Section is targeted for June/July 2022 and efforts are being made to achieve this milestone as early and safely as possible. Trial operations of East Rail Line trains to the future terminus of Admiralty Station commenced in January 2022.

Other New Railway Projects

MTR is involved in a number of projects under RDS 2014, Government’s wide-ranging infrastructure initiative to enhance and expand Hong Kong’s railway network. The Company is also pleased to support Government’s newly announced Northern Metropolis Development Strategy. This initiative includes five railway projects designed to drive railway-based community

development throughout Hong Kong as well as the construction of a new Science Park/ Pak Shek Kok Station along the East Rail Line.

Preliminary design of the Tung Chung Line Extension commenced in June 2020, and the project was gazetted under the Railways Ordinance in December 2021. Construction is targeted to commence in 2023 for completion in 2029.

Detailed planning and design of the Tuen Mun South Extension commenced in the fourth quarter of 2020, and the project was gazetted under the Railways Ordinance in January 2022. Construction is targeted to commence in 2023 for completion in 2030.

For the Northern Link project, we received Government's invitation to proceed with detailed planning and design in December 2020. A design consultant was appointed for Kwu Tung Station on the East Rail Line in April 2021, with construction targeted to commence in 2023 for completion in 2027. A design consultant for the Northern Link Main Line was appointed in July 2021, with construction targeted to commence in 2025 for completion in 2034.

In May 2021, we were invited by Government to proceed with detailed planning and design for Hung Shui Kiu Station, and we awarded the design consultancy for the project in October 2021. Construction is targeted to commence in 2024 for completion in 2030.

It should be noted that the Company is still in various stages of discussion with Government, and has yet to enter into project agreements for the Tung Chung Line Extension, Tuen Mun South Extension, Northern Link and Hung Shui Kiu Station projects. Government has announced its intention to proceed with MTR on certain projects using the well-proven Rail plus Property model.

We are working closely with Government to address technical challenges regarding the East Kowloon Line and North Island Line. We also continue to discuss with Government our proposal for the South Island Line (West), which was submitted in December 2020.

In the 2021 Policy Address, the Chief Executive outlined five railway projects for further exploration under Government's Northern Metropolis Development Strategy. As a provider of low-carbon mass transit services, MTR welcomes these initiatives – which include expanding the local and cross-boundary railway networks and pursuing long-term land development strategies to drive growth via the “transport infrastructure-led development” model – and will support Government to drive this important strategy forward. Among these five projects, the Company has already commenced a study on the Northern Link Spur Line – which will connect to the loop area and the new Huanggang crossing point in Shenzhen – after receiving an invitation from Government in early 2021. The Company has also been invited to study the construction of a new Science Park/ Pak Shek Kok Station along the East Rail Line.

Expanding the Property Portfolio

Investment Properties

MTR's two new shopping malls, The Wai in Tai Wai and THE SOUTHSIDE in Wong Chuk Hang, will add about 30% of attributable GFA to the Company's existing retail portfolio. Superstructure works are underway at THE SOUTHSIDE, which is expected to open in 2023. In light of the construction issue at The Pavilia Farm III, the Developer has submitted the report regarding the matter. Superstructure works for The Wai are on-going, and the mall is expected to open in 2023.

Residential Property Development

We continued to make progress on a number of residential property development projects in 2021. The Layout Plan for the Siu Ho Wan Depot topside development was approved by the Town Planning Board in December 2021. Detailed design and advance works have commenced, and the land grant process is on-going. The tender of Siu Ho Wan Depot Topside

Property Development Package 1 (i.e., Phase 1 Package 1) will be subject to entering into a project agreement with Government and signing the land grant. We completed town planning procedures for the Pak Shing Kok Ventilation Building site in June 2021 and we are now inviting developers to submit Expression of Interest for this property development project. The tender for Tung Chung East Station Package 1 is subject to our entering into a project agreement for the Tung Chung Line Extension with Government. In all, the Company's 15 on-going residential property projects should provide approximately 20,000 units in total, supplying much-needed quality housing to the market.

Elsewhere, we are exploring sites along our existing and future railway lines, including the Tuen Mun South Extension, Kwu Tung Station and the Northern Link, and Hung Shui Kiu Station. We are also exploring development opportunities related to the Northern Metropolis Development Strategy and the new Science Park/ Pak Shek Kok Station projects as announced in the Chief Executive's 2021 Policy Address.

MAINLAND CHINA AND INTERNATIONAL BUSINESSES

In alignment with its Corporate Strategy, MTR also drives business growth by serving a number of important markets outside its home base of Hong Kong. The Company regularly explores opportunities to develop its operations in China and international markets, enabling it to connect communities around the world with environmentally friendly mass transit services while diversifying revenue and building the MTR brand on a global scale.

In 2021, this segment served approximately 1,700 million passengers in Mainland China, Macao, Europe and Australia through its various subsidiaries, associates, and joint ventures. Although COVID-19 continued to affect patronage in all locations, the financial impact on different businesses varied depending on the respective local business models.

Mainland of China and International Businesses																			
Year ended 31 December HK\$' million	Mainland of China and Macao Railway, Property Rental and Property Management Businesses						International Railway Businesses			Total									
	2021		2020		Inc./ (Dec.) %		2021		2020		Inc./ (Dec.) %		2021		2020		Inc./ (Dec.) %		
	RECURRENT BUSINESSES																		
Subsidiaries																			
Revenue	2,686	1,836	46.3	22,359	19,592	14.1	25,045	21,428	16.9										
EBITDA	216	224	(3.6)	674	309	118.1	890	533	67.0										
EBIT	203	212	(4.2)	419	49	755.1	622	261	138.3										
EBIT (Net of Non-controlling Interests)	203	212	(4.2)	292	61	378.7	495	273	81.3										
EBITDA Margin (in %)	8.0%	12.2%	(4.2)% pts.	3.0%	1.6%	1.4 % pts.	3.6%	2.5%	1.1 % pts.										
EBIT Margin (in %)	7.6%	11.5%	(3.9)% pts.	1.9%	0.3%	1.6 % pts.	2.5%	1.2%	1.3 % pts.										
Recurrent Business Profit/(Loss)	157	174	(9.8)	155	(4)	n/m	312	170	83.5										
Associates and Joint Ventures																			
Share of EBIT	1,386	844	64.2	47	63	(25.4)	1,433	907	58.0										
Share of Profit	692	363	90.6	44	61	(27.9)	736	424	73.6										
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Ventures	1,589	1,056	50.5	339	124	173.4	1,928	1,180	63.4										
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY																			
- Arising from Recurrent Businesses (before Business Development Expenses)	1,048	594	76.4				1,048	594	76.4										
- Business Development Expenses	(219)	(183)	19.7				(219)	(183)	19.7										
- Arising from Recurrent Businesses (after Business Development Expenses)	829	411	101.7				829	411	101.7										
- Arising from Mainland of China Property Development	66	65	1.5				66	65	1.5										
- Arising from Underlying Businesses	895	476	88.0				895	476	88.0										

n/m: not meaningful

Excluding Mainland China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint

ventures outside of Hong Kong, contributed a net after-tax profit of HK\$829 million in 2021 on an attributable basis. This represented an increase of 101.7% compared with 2020.

In Mainland China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries decreased by 9.8% to HK\$157 million in 2021. This was primarily due to lower contributions from the Macao business, which were partly offset by improved operations for the Shenzhen railway business.

In our international businesses, recurrent business profit from our railway subsidiaries was HK\$155 million compared to a loss of HK\$4 million in 2020. This was mainly due to improved performance from Metro Trains Melbourne Pty Ltd and our operations and maintenance (“O&M”) business at Metro North West Line in Sydney, although results were partially offset by the initial operating loss of Mälartåg.

Our share of results from our associates and joint ventures increased by 73.6% to HK\$736 million in 2021, as our Beijing and Hangzhou operations posted improvements due to recovery from the pandemic.

Railway Businesses in Mainland China

Beijing

In Beijing, our associate operates Beijing Metro Line 4 (“BJL4”), the Daxing Line, BJL14, the Northern and Middle sections of Beijing Metro Line 16 (“BJL16”), and the initial section of BJL17. The final section of BJL14 and the initial section of BJL17 opened in December 2021. The full line of BJL14 is now in service. Construction along BJL16 continued, with the full line of BJL16 expected to open after 2022 at the earliest.

The five metro lines that we are operating in Beijing maintained stable operations during the year. Patronage increased in comparison to 2020 as the market continued to recover from COVID-19.

Shenzhen

Shenzhen Metro Line 4 (“SZL4”), including the SZL4 North Extension, is operated by our wholly owned subsidiary. This metro line maintained stable operations during the year.

There has been no increase in fares at SZL4 since we began operating the line in 2010. In July 2020, the Shenzhen Municipal Government announced that a new fare adjustment framework for the Shenzhen Metro network would come into 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 adjustments. However, as we have been warning repeatedly for some time, if a suitable fare increase and adjustment mechanism are not implemented soon, the long-term financial viability of this line will be impacted.

A consortium led by our wholly owned subsidiary was awarded the Shenzhen Metro Line 13 public-private partnership contract in 2020, and the line is currently under construction with several key contracts awarded.

Hangzhou

Our businesses in Hangzhou include Hangzhou Metro Line 1 (“HZL1”), the HZL1 Xiasha Extension and Airport Extension as well as Hangzhou Metro Line 5 (“HZL5”). All lines continued to achieve stable operations during the year.

Property Business in Mainland China

As at 31 December 2021, 26 of the remaining 32 units at the Tiara, MTR’s residential development at SZL4 Depot Site Lot 1, had been sold.

Project completion for the Beiyunhe Station shopping centre development in Tianjin is targeted for 2024, and works are progressing well.

Macao Railway Business

MTR operates and maintains Macao's first rapid transit system, the Macao Light Rapid Transit Taipa Line. Train services for the Macao Light Rapid Transit Taipa Line have been suspended temporarily for six months with effect from 20 October 2021 to facilitate the replacement of high-voltage cables by the responsible third party.

European Railway Business

United Kingdom

Our wholly owned subsidiary in London 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. We achieved stable operations during the year, and works continued in support of our client for the trial operations stage of the Central Operating Section – which began in November 2021 – to support the client's objective to open in the first half of 2022. Ridership on TfL Rail in 2021 was affected by the pandemic, although our financial interest is reasonably protected as this concession carries no fare revenue risk.

Our associate operates the South Western Railway franchise, one of the largest rail networks in the UK. Services were stable during the year. Earlier in 2021 we signed a National Rail Contract for a two-year term lasting till May 2023, under which the UK Department for Transport will retain all revenue risk and substantially all cost risk.

Sweden

MTR is the largest rail operator in Sweden by passenger volume. The Company operates four rail businesses via wholly owned subsidiaries: Stockholm Metro (Stockholms tunnelbana), MTRX, the Stockholm commuter rail service (Stockholms pendeltåg) and the Mälartåg regional traffic.

During the pandemic, Stockholm Metro and Stockholms pendeltåg maintained full service. MTRX has experienced a significant decline in ticket revenue due to pandemic-related travel advisories and capacity restrictions, and we are reviewing options to deal with the situation.

In December 2021, we took over operations of the Mälartåg regional traffic under an interim agreement that will cover two years. A further year plus one-year extension will be granted at the discretion of the regional Public Transport Authority. Depending on the outcome of a legal process, the interim agreement may revert back to an eight-year agreement with a one-year extension possibility.

Australia Railway Business

The Melbourne metropolitan rail network continued to experience decreased patronage in 2021 due to lockdowns and various other anti-pandemic measures.

The Metro North West Line in Sydney achieved stable service performance. Patronage was significantly affected due to COVID-19, although there is no fare revenue risk according to the terms of this franchise. Meanwhile, the Company continued to make progress on its Sydney Metro City & Southwest project despite the severe impact of the pandemic on all construction and supply chain activities.

Growth Outside of Hong Kong

In Mainland China, the Company continued to make progress on its Hangzhou West Station TOD project after securing the land use right for the site south of the station in March 2021. This project is a mixed-use property development with a total developable GFA of approximately 688,210 square metres. The Company also continues to seek potential cooperation

opportunities to build transport infrastructure, property development and community projects in Mainland China and explore growth prospects internationally.

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

HK\$ million	Year ended 31 December		Favourable/ (Unfavourable) Change	
	2021	2020	HK\$ million	%
Total Revenue	47,202	42,541	4,661	11.0
Recurrent Business Profit / (Loss)^ξ				
EBIT				
Hong Kong Transport Services				
- Hong Kong Transport Operations	(4,262)	(5,408)	1,146	21.2
- Hong Kong Station Commercial Businesses	2,488	2,502	(14)	(0.6)
Hong Kong Property Rental and Management Businesses	4,048	4,185	(137)	(3.3)
Mainland of China and International Railway, Property Rental and Management Subsidiaries	622	261	361	138.3
Other Businesses, Project Study and Business Development Expenses	(567)	(1,949)	1,382	70.9
Share of Profit of Associates and Joint Ventures	968	605	363	60.0
Total Recurrent EBIT	3,297	196	3,101	n/m
Interest and Finance Charges	(1,045)	(1,097)	52	4.7
Income Tax	(317)	(237)	(80)	(33.8)
Non-controlling Interests	(127)	12	(139)	n/m
Recurrent Business Profit / (Loss)	1,808	(1,126)	2,934	n/m
Property Development Profit (Post-tax)				
Hong Kong	9,277	5,442	3,835	70.5
Mainland of China	66	65	1	1.5
Property Development Profit (Post-tax)	9,343	5,507	3,836	69.7
Underlying Business Profit^ε	11,151	4,381	6,770	154.5
Loss from Fair Value Measurement of Investment Properties	(1,599)	(9,190)	7,591	82.6
Net Profit / (Loss) Attributable to Shareholders of the Company	9,552	(4,809)	14,361	n/m

ξ : Recurrent business profit / (loss) represents profit / (loss) 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 profit from the Group's recurrent businesses and property development businesses.

n/m : not meaningful

Our overall financial performance in 2021 improved as our businesses and markets continued to recover from the effects of the COVID-19 pandemic until the onset of the Omicron wave of infections at the beginning of 2022 in Hong Kong.

Total Revenue

The Group's total revenue in 2021 increased by 11.0% to HK\$47,202 million when compared to 2020. This is mainly due to (i) increase in Domestic fare revenue of our Hong Kong transport operations ("HKTO"), (ii) higher revenue from our Melbourne transport operations and more project activities relating to Melbourne Level Cross Removal Project, (iii) increase in construction income from Shenzhen Metro Line 13 project, and (iv) higher revenue from overseas businesses due to more favourable exchange rates; but partly offset by the cessation of project management fee recognition in respect of the Shatin to Central Link ("SCL") project.

Although our Domestic patronage in Hong Kong showed good signs of recovery when COVID-19 effects eased in second half of 2021 locally, the full year closures of major passenger boundary crossings between Hong Kong and Mainland China and various air travel restrictions continued to have material adverse impacts on our Cross-boundary and Airport Express fare, Duty Free Shops and other rental revenue when visitor arrivals remained minimal.

Recurrent Business Profit

With the improvement in global pandemic situation, business and social activities continued to recover in 2021. The Group's recurrent business reported a profit of HK\$1,808 million in this year, compared to a loss of HK\$1,126 million in 2020, mainly due to recovery of our Domestic patronage in Hong Kong, improved operations of our railway businesses in Mainland China and Australia in varying degree, and the one-off provision of the additional project management cost of the SCL project in 2020.

EBIT

HKTO: Continued to record significant EBIT loss of HK\$4,262 million in 2021, albeit the loss was improved by HK\$1,146 million when compared to 2020. The improvement was mainly attributed to rebound in Domestic patronage when COVID-19 effects eased in the second half of 2021, as well as our collective effort in the implementation of stringent cost control measures.

Despite rebound in Domestic patronage, HKTO continued to report a significant loss as Cross-boundary Service, High Speed Rail and Intercity patronage remained severely impacted by the on-going closures of boundary crossings between Hong Kong and Mainland China since February 2020, and Airport Express patronage also experienced substantial reduction as various air travel restrictions continued.

Hong Kong station commercial businesses ("HKSC"): EBIT decreased slightly by HK\$14 million (0.6%) to HK\$2,488 million. HKSC has been adversely impacted by the pandemic since February 2020 when the Group began granting rental concessions to Duty Free Shop concession holders and station kiosks in several boundary crossing stations due to station closures, as well as to other station kiosks along Domestic Lines due to the impact of the pandemic. The further decrease in EBIT when compared to 2020 was mainly due to the impact of January 2020, which was still a normal month before COVID-19 outbreak, and more rental concession amortised in profit and loss, but mostly offset by the rebound in advertising revenue on the back of improved market sentiment in the second half of 2021, following the resumption of economic activities due to relaxation of social distancing measures and the rollout of the Consumption Voucher Scheme by Government, which encouraged more advertising spent.

Hong Kong property rental and management businesses: EBIT decreased by HK\$137 million (3.3%) to HK\$4,048 million. The further decrease in EBIT when compared to 2020 was mainly due to more rental concessions amortised in 2021 and negative rental reversions experienced on renewals and new lets. The decrease was partially offset by full-year contributions from our new

mall, The LOHAS, as well as the acquisition of remaining economic interests in Telford Plaza II and Popcorn 2 in March 2020.

Mainland China and international railway, property rental and management business subsidiaries: These subsidiaries have been recovering from the adverse impact of COVID-19 to varying degrees, depending on the impact of the pandemic in different cities we operate and the business models of different business contracts. When compared to 2020, EBIT improved by HK\$361 million (138.3%) to HK\$622 million, which was mainly due to better performance from the Melbourne metropolitan rail network, O&M business at Sydney Metro North West in Australia, and the rail business at Shenzhen Metro Line 4 in Mainland China.

Other businesses, project study and business development expenses: EBIT loss from these businesses was HK\$567 million in 2021, compared to HK\$1,949 million in 2020. The improvement of HK\$1,382 million in EBIT loss was mainly due to the one-off provision of HK\$1.4 billion made in 2020 in respect of the additional project management cost of the SCL project and a narrowing of loss at Ngong Ping 360 as a result of recovery from the pandemic impact.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures increased by HK\$363 million (60.0%) to HK\$968 million in 2021. This was mainly due to improvements in our Hangzhou and Beijing operations, the full-year contribution from the new Hangzhou Line 5, which started full-line operation in April 2020, and an increase in profit sharing from Octopus Holdings Limited resulting from higher Octopus Card transaction volume boosted by recovery of the retail sector in 2021.

Property Development Profit (Post-tax)

Property development profit (post-tax) increased from HK\$5,507 million in 2020 to HK\$9,343 million in 2021, which was mainly derived from the share of surplus proceeds and income of MONTARA and GRAND MONTARA (LOHAS Park Package 7), SEA TO SKY (LOHAS Park Package 8) and MARINI, GRAND MARINI and OCEAN MARINI (LOHAS Park Package 9), as well as sales of inventory units.

Loss from Fair Value Measurement of Investment Properties

Loss from fair value measurement of investment properties was HK\$1,599 million in 2021, comprising investment property revaluation loss of HK\$2,065 million, partly mitigated by gain from fair value measurement of investment properties on initial recognition from property development of HK\$466 million. The revaluation of the Group's investment properties in Hong Kong and the Mainland of China, which were performed by independent professional valuation firms, resulted in a revaluation loss of HK\$2,161 million (or an attributable revaluation loss after tax of HK\$2,065 million), representing an approximate 2.5% drop against the value as of 31 December 2020. This loss was mainly explained by the continued negative rental reversions recorded in 2021.

Net Profit Attributable to Shareholders of the Company

Taking into account the Group's recurrent businesses, property development businesses and fair value measurement of investment properties, the Group reported a net profit attributable to shareholders of the Company of HK\$9,552 million in 2021, compared to a net loss of HK\$4,809 million in 2020.

Financial Position

HK\$ million	31 December 2021	31 December 2020	Inc./(Dec.)	
			HK\$ million	%
Net Assets	180,037	176,981	3,056	1.7
Total Assets	292,082	290,574	1,508	0.5
Total Liabilities	112,045	113,593	(1,548)	(1.4)
Gross Debt [^]	43,752	50,340	(6,588)	(13.1)
Net Debt-to-equity Ratio ^δ	18.1%	22.5%		(4.4)% pts

[^] : Gross debt represents loans and other obligations, and short-term loans.

^δ : Net debt-to-equity ratio represents net debt of HK\$32,660 million (2020: HK\$39,887 million), which comprises 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, and investment in bank medium-term notes in the consolidated statement of financial position, as a percentage of the total equity of HK\$180,037 million (2020: HK\$176,981 million).

Net Assets

Our financial position remains strong and improved when compared to 2020. The Group's net assets increased by 1.7% to HK\$180,037 million as at 31 December 2021 from HK\$176,981 million as at 31 December 2020. This was mainly due to the net profit recognised for the year, and partly offset by the 2020 final and 2021 interim ordinary dividend payments.

Total Assets

Total assets increased slightly by 0.5% to HK\$292,082 million from HK\$290,574 million. This was due to increases in deferred expenditure relating to a number of RDS-2014 railway projects, interests in associates and joint ventures as a result of share of profit for the year, and investment in securities resulting from purchase of bank medium-term notes. This was partly offset by decreases in properties held for sale, and property development in progress resulting from the profit recognition in respect of LOHAS Park packages during the year.

Total Liabilities

Total liabilities decreased slightly by 1.4% to HK\$112,045 million from HK\$113,593 million. This was mainly due to the net repayment of loans, but partly offset by the increase in the advance cash received in respect of our Hong Kong property developments.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations, and short-term loans) decreased by 13.1% to HK\$43,752 million as at 31 December 2021. Weighted average borrowing cost of the Group's interest-bearing borrowings decreased from 2.3% p.a. in 2020 to 2.2% p.a. in 2021.

Net Debt-to-equity Ratio

Net debt-to-equity ratio decreased by 4.4% points to 18.1% as at 31 December 2021 from 22.5% as at 31 December 2020. This was mainly due to a decrease in net debts as a result of the cash receipts from our Hong Kong property development business.

Cash Flow

HK\$ million	Year ended 31 December	
	2021	2020
Net Cash Generated from / (Used in) Operating Activities and after Fixed and Variable Annual Payments	6,484	(2,561)
Net Receipts from Property Development	16,642	8,171
Other Net Cash Outflow from Investing Activities	(8,489)	(9,326)
Net (Repayment) / Borrowing of Debts, Net of Lease Rental and Interest Payments	(7,317)	9,661
Dividends Paid to Shareholders of the Company	(7,165)	(6,808)
Increase / (Decrease) in Cash, Bank Balances and Deposits[#]	106	(872)

[#] : Excluding effect of exchange rate change

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

Net cash generated from operating activities after fixed and variable annual payments for Hong Kong railway and related operations was HK\$6,484 million compared to net cash used of HK\$2,561 million in 2020. This was mainly due to lower cash used in 2021 for settling the 2020 variable annual payment, less cash tax paid in 2021, and an increase in operating profit in 2021 as our businesses continued to recover from the adverse impact of the COVID-19 pandemic.

Net Receipts from Property Development

Net receipts from property development were HK\$16,642 million, comprising mainly cash receipts from THE SOUTHSIDE, LOHAS Park and Ho Man Tin Station packages.

Other Net Cash Outflow from Investing Activities

Other net cash outflow from investing activities was HK\$8,489 million, which mainly included capital expenditure of HK\$7,785 million, comprising HK\$5,720 million for investments in additional assets for existing Hong Kong railways and related operations, HK\$1,069 million for Mainland China and overseas subsidiaries, HK\$716 million for Hong Kong railway extension projects and HK\$280 million for Hong Kong investment properties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ESG is a centre piece of our new Corporate Strategy. It guides our policies and actions across our businesses with keen focuses on the areas of Greenhouse Gas Emissions (“GHG”) Reduction, Social Inclusion, and Advancement and Opportunities. During the year we continued to undertake a wide range of initiatives to further these causes with the goal of strengthening our bonds with the communities we serve and contributing to the fight against climate change.

Recognising the climate imperative for businesses, we recently completed a carbon reduction study that takes into account a comprehensive range of factors including the latest climate science, technology trends, Hong Kong’s Climate Action Plan 2050, the risks and opportunities for our business, and the views of key internal and external stakeholders. Following this study, we will be setting science-based reduction targets for 2030 with the longer-term goal of achieving carbon neutrality by 2050.

These targets will cover the scope 1 and scope 2 emissions from our Hong Kong operations as well as scope 3 emissions and will be achieved by implementing a range of energy saving and carbon reduction initiatives, such as investing in the latest technologies, adopting innovative

ways to enhance work efficiency, and partnering with key stakeholders including the electricity suppliers in Hong Kong, in a concerted effort to reduce carbon emission.

We also believe that our position as a leader in low-carbon mass transit comes with a responsibility to help society build a more environmentally sustainable future. In 2021, we were proud to receive the “Outstanding Award for Green and Sustainable Bond Issuer (Transportation Industry) – Largest Single Green Bond” from the Hong Kong Quality Assurance Agency, which recognised our efforts to fund and support railway-related conservation and energy efficiency projects. Our “Carbon Wallet” and “Carbon Footprint Challenge” campaigns, both rolled out via mobile platforms, promoted the importance of carbon reduction among registered users.

Each year, MTR strives to achieve social inclusivity through a variety of initiatives. In 2021, these included promoting railway safety to the young and elderly and collaborating with partner organisations to foster barrier-free appreciation of the arts. As always, we worked to ensure that our services are available to all by providing fare concessions and promotions to the elderly, children, eligible students and persons with disabilities, as well as by improving our trains and station facilities for better accessibility. As we fulfil our vision to connect and grow communities, we create opportunities for our staff and the young people in our communities to develop themselves and grow alongside us. Our annual “Train’ for Life’s Journeys” programme continued to offer students a holistic career and life planning experience helping them set goals for their future development. Meanwhile, we received recognition for our efforts to embed sustainability into our business and operations and keep cities moving. The Company was awarded the Hong Kong Sustainability Award and five special recognition awards at the Hong Kong Sustainability Awards 2020/21 organised by the Hong Kong Management Association.

Strong corporate governance is at the heart of our business and decision-making, ensuring that we operate ethically and transparently to safeguard the interests of our shareholders and stakeholders. We were proud to receive the “Best Public Service Financial Management Team Hong Kong 2021” award from Capital Finance International in recognition of our proactive financial management and diversified business model, which have enabled us to deliver stable dividend payments over the past two years despite the challenges of the pandemic.

Safety

MTR is a renowned provider of world-class public transportation services for major metropolitan areas. As such, ensuring the safety, health and security of passengers and staff is paramount to the Company’s operations and a critical component of its ESG strategy.

Each year, MTR reviews and updates its health and safety practices in accordance with established global standards and its Corporate Safety Policy. The Company also promotes the importance of railway safety among its staff and the wider community through training and public outreach initiatives.

In 2021, we continued our efforts to combat COVID-19 both within our organisation and throughout the community. Areas of focus included the sanitisation and deep cleaning of trains and stations; enhanced ventilation and air filter maintenance; the installation of additional lift button sensors to provide a hygienic option for customers when using station lifts; the production of face masks for staff; and more. We also announced that we will phase in requirements for COVID-19 vaccinations for staff and contractors, a programme that will help protect our employees and the community against COVID-19.

In 2021, there were 820 reportable events on our heavy rail and light rail networks in Hong Kong, an increase of 11% compared to the previous year. This reflected the higher number of trips run as a result of the easing of anti-pandemic measures and the return of workers and students to offices and schools, respectively. Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries) that are considered reportable to the Secretary for Transport and Housing and the Director of the Electrical and Mechanical Services Department under the Mass Transit Railway Regulations. Such events

include suicides and attempted suicides, trespassing onto tracks, and accidents on escalators, lifts and moving paths.

Enterprise Risk Management

Having an effective enterprise risk management framework in place ensures that we can identify, assess and mitigate potential threats to our corporate reputation, business continuity, the safety and health of the public and our employees, legal compliance, and stakeholder commitments. To enhance our preparedness and ability to respond to a wide range of potential challenges, we review the Company's risk profile, top risks and key emerging risks, including ESG-related risks, on an on-going basis.

As part of our Corporate Strategy, over the past year we have also refined our "three lines of defence" model and framework to align with international best practices, enhance governance, and identify and address any unmitigated material risks.

Currently, managing the impact of COVID-19 on our businesses, customers and staff and delivering the Hung Hom to Admiralty Section of the Shatin to Central Link are two of our primary risk management focus areas. We continue to monitor and assess existing and emerging risks to ensure our control strategies are adequate and effective.

HUMAN RESOURCES

As at 31 December 2021, MTR along with its subsidiaries employed 16,863 people in Hong Kong and 15,105 people outside Hong Kong. Our associates and joint venture employed an additional 19,887 people in Hong Kong and worldwide. In 2021, the voluntary staff turnover rate in Hong Kong was at 5.6%.

To attract, retain and develop our staff for supporting our long-term business growth and meeting succession needs, we provide competitive remuneration as well as a broad range of career development opportunities. We recognise and reward our staff's contributions and performance through a robust performance-based pay review mechanism as well as various staff motivational schemes and awards. We also provide comprehensive training and development programmes with an average of 5.2 training days per staff in Hong Kong during the year. To solicit staff feedback and enhance our level of employee engagement, we launched the 2021 Employee Engagement Survey in December and received an overall survey response rate of nearly 80%. Based on staff's feedback and the insights collected from the results, an action plan will be formulated and executed in 2022 to address identified needs.

As we continue to deal with the COVID-19 pandemic, our top priorities include protecting jobs and safeguarding the health of our staff. We strive to support staff well-being with family-friendly employment practices and a variety of wellness programmes and resources. All these staff engagement efforts, together with our commitments to nurture and motivate our staff, were recognised by several HR awards received during the year.

MTR ACADEMY

The MTR Academy is designed both to create a pipeline of future talent that can take the railway industry to the next level, and to export MTR's skills, know-how and brand to Mainland China and global markets. In 2021, the Academy established new articulation pathways to higher education within local tertiary institutions – thus allowing our graduates to further their studies – and greatly increased its offerings of Continuing Professional Development courses by collaborating with professional bodies and consultants. In the future, the Academy plans to partner with academic research institutions to advance applied research and development as well as continue its partnership efforts in the Greater Bay Area to support the Belt and Road Initiative.

OUTLOOK

At the time of writing, Omicron was driving a fifth wave of COVID-19 infections in Hong Kong, presenting severe challenges to people's day-to-day activities and creating adverse impacts on local patronage. The emergence of new coronavirus variants and evolving anti-pandemic guidelines show that – two years on, and likely well into 2022 – the pandemic is still a fluid situation that requires close monitoring and rapid response if we are to keep cities moving with the industry-leading performance that people have come to expect from MTR.

Since the very first days of the COVID-19 outbreak, we have implemented a host of measures to ensure the health and safety of our passengers, staff and business partners, and we will continue to prioritise these efforts. Immediately following the latest wave of infections, we announced we would also be rolling out a number of new initiatives to benefit station and shopping mall tenants, healthcare workers, and the disadvantaged as well as bring greater convenience to the taxi industry. In addition, we will provide more assistance to our staff and contractor staff to ensure the sustainability of our services. These actions underscore our commitment to support people from all walks of life during this difficult time. We will also continue to exercise prudent cost control to ensure efficient operations and safeguard shareholder value.

While local patronage at the end of 2021 was beginning to approach pre-pandemic levels (before the onset of the Omicron wave of infections), overall fare revenue will continue to suffer as long as boundary closures and anti-pandemic measures remain in place. We look forward to the opening of the East Rail Line cross-harbour extension, which is now targeted for June/July 2022. Achieving this milestone will enhance the connectivity of our railway network and provide more transport options for the public.

Boundary closures, travel restrictions and the resulting drop in tourism – particularly from Mainland China – have inevitable impacts on rental reversions by suppressing retail traffic and consumer spending. Our Duty Free business has also been hampered by the continued closure of cross-boundary stations, and its future performance is expected to be impacted by contracts that were renewed in adverse market conditions. As at the time of writing, there is still no clarity on when such travel restrictions might be eased, particularly as new waves of COVID-19 are driving the adoption of more stringent anti-pandemic measures. No matter the situation, we will ensure our preparedness for the eventual reopening of travel while adhering to the highest standards of anti-pandemic practices.

We are now inviting developers to submit Expression of Interest for the Pak Shing Kok Ventilation Building property development. Subject to market conditions, in the coming 12 months or so, we also anticipate tendering out the Tung Chung Traction Substation site, Tung Chung East Station Package 1 site (subject to entering into a project agreement with Government) and Siu Ho Wan Depot Topside Property Development Package 1 (i.e., Phase 1 Package 1) (subject to entering into a project agreement with Government and signing the land grant). These three projects will bring roughly 4,580 more residential units to the local property market. We also aim to launch pre-sales for LOHAS Park Package 11, THE SOUTHSIDE Package 4 and Ho Man Tin Station Package 2 in 2022. In addition, we expect to book profits for The LOHAS Park Package 10, THE SOUTHSIDE Package 1 and THE SOUTHSIDE Package 2.

In the coming year, we expect to make further progress on the projects under RDS 2014. We will also explore how MTR can help Government advance the Northern Metropolis Development Strategy and the proposed new Pak Shek Kok Station that were announced during the Chief Executive's 2021 Policy Address. Such forward-thinking initiatives will no doubt play a crucial role in driving the city's future economic development. As always, we will continue to explore railway and TOD opportunities in Mainland China and internationally that can help our client cities move forward and help us expand our footprint outside Hong Kong.

All that we have accomplished over the past year would not have been possible without the sage counsel and guidance of our Board, the hard work of our management and staff, and the understanding and support of the communities we serve. These have been trying times, but I

am proud of the work we have done to ensure a strong, fit-for-future organisation that can grow sustainably in concert with society and keep our cities moving.

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

Hong Kong, 10 March 2022

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting 2022

The Register of Members of the Company will be closed from 19 May 2022 to 25 May 2022 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To be eligible to attend, speak and vote at the Company's Annual General Meeting to be held on 25 May 2022, all completed transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 18 May 2022 (Hong Kong time).

2021 Final Dividend

The Register of Members of the Company will be closed from 31 May 2022 to 6 June 2022 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To qualify for the proposed 2021 final dividend, all completed transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, at the address mentioned in the preceding paragraph, no later than 4:30 p.m. on 30 May 2022 (Hong Kong time).

As at the date of this announcement:

Members of the Board: Dr Rex Auyeung Pak-kuen (*Chairman*) **, Dr Jacob Kam Chak-pui (*Chief Executive Officer*), 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*, Hui Siu-wai*, Dr Rose Lee Wai-mun*, Jimmy Ng Wing-ka*, Benjamin Tang Kwok-bun*, Adrian Wong Koon-man*, Johannes Zhou Yuan*, Christopher Hui Ching-yu (*Secretary for Financial Services and the Treasury*)**, *Secretary for Transport and Housing (Frank Chan Fan)***, *Permanent Secretary for Development (Works) (Ricky Lau Chun-kit)*** and *Commissioner for Transport (Rosanna Law Shuk-pui)***

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

* *independent non-executive Director*

** *non-executive Director*

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

About MTR Corporation

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

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

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

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

*includes our subsidiaries and associates in Hong Kong and worldwide