# FINANCIAL REVIEW


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

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

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

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

# PROFIT AND LOSS

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

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

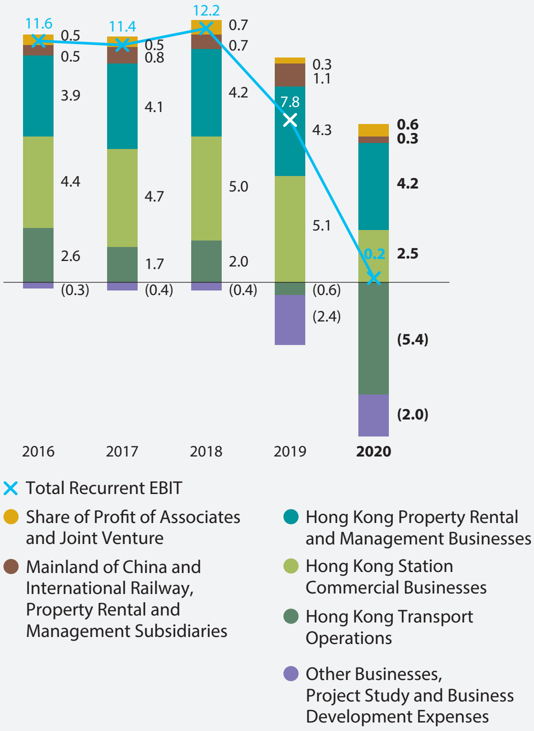
The outbreak of COVID-19 has become a pandemic and adversely impacted all the cities where we operate. The anti-pandemic measures put in place by governmental authorities in Hong Kong and globally, such as social distancing and travel restrictions, have had a widespread negative impact on the social,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

## Total Revenue

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

Total Revenue
*(HK$ billion)*

## Recurrent Business Loss




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

### Total Recurrent EBIT

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

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

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

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

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

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

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

### Total Recurrent EBIT Margin

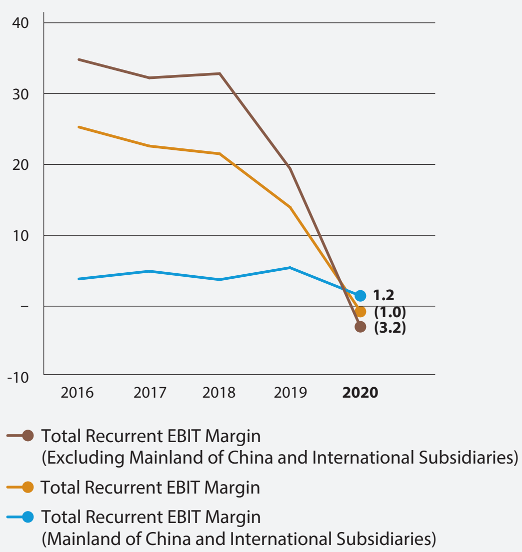
Total recurrent EBIT margin maintained a stable trend from 2016 to 2018 and declined in 2019 and 2020.

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

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

Total Recurrent EBIT Margin^

*(Percentage)*




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

### Interest and Finance Charges

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

### Income Tax

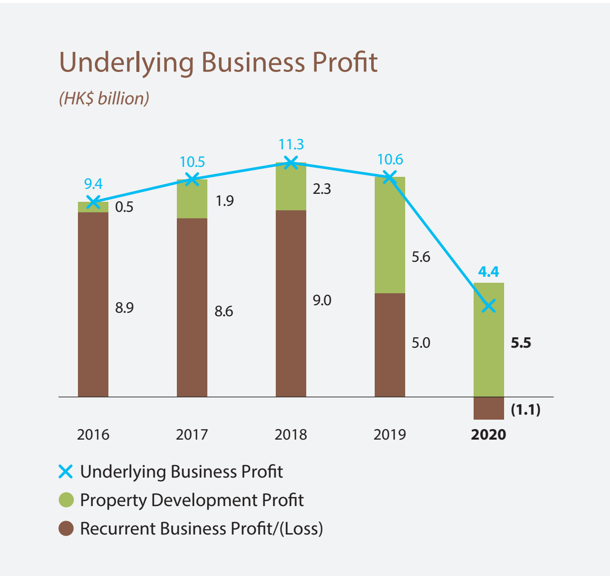
Income tax for recurrent businesses was HK$237 million, representing a decrease of 86.4% from 2019 due to declined financial performance.

## Property Development Profit (Post-tax)

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

## Underlying Business Profit

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




## Investment Property Revaluation Loss

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

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

## Net Loss Attributable to Shareholders of the Company

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

## STATEMENT OF FINANCIAL POSITION

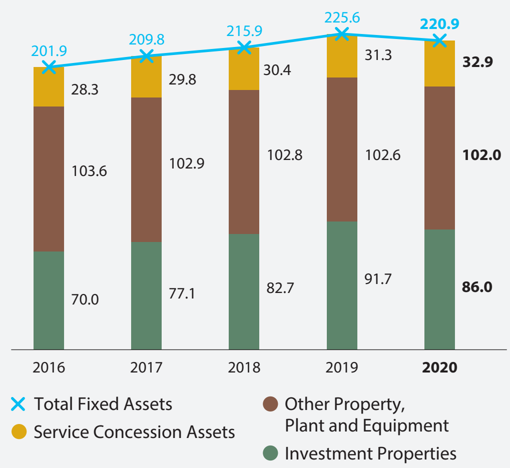
| HK$ million | As at 31 December 2020 | As at 31 December 2019 | Inc./(Dec.) HK$ million | % |
|---|---|---|---|---|
| Fixed Assets | **220,932** | 225,605 | (4,673) | (2.1) |
| Property Development in Progress | **11,942** | 12,022 | (80) | (0.7) |
| Interests in Associates and Joint Venture | **11,592**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

### Fixed Assets

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

Fixed Assets Growth

*(HK$ billion)*




### Interests in Associates and Joint Venture

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

### Debtors and Other Receivables

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

### Other Assets

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

### Total Loans and Other Obligations

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

### Total Equity

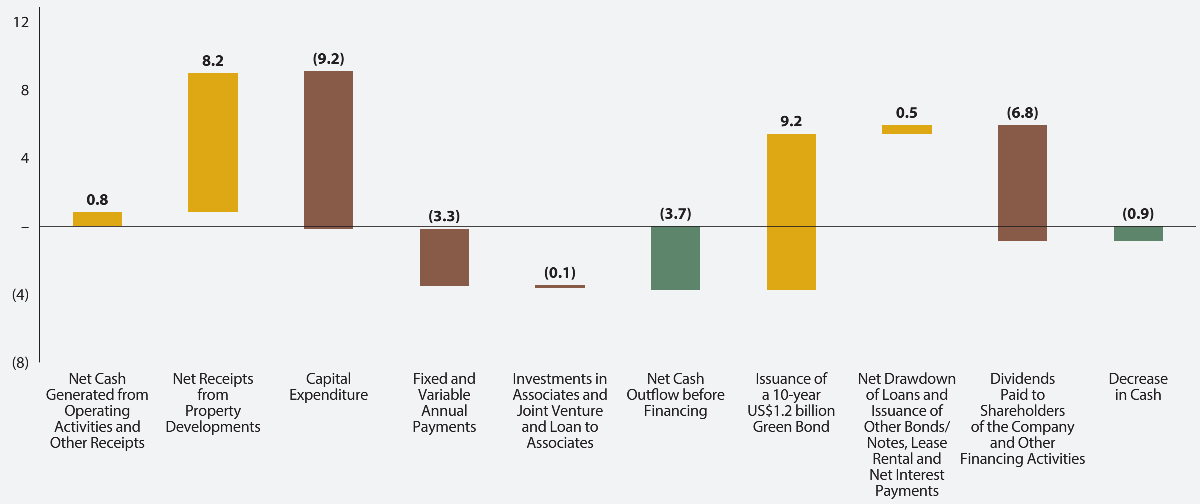
Total equity decreased by HK$9,817 million, mainly due to the investment property revaluation loss and the payments of the 2019 final ordinary dividend and 2020 interim ordinary dividend during the year partly offset by the underlying business profit recorded for the year.

# CASH FLOW

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

Cash Flow for the Year Ended 31 December 2020

*(HK$ billion)*




## Net Cash Generated from Operating Activities and Other Receipts

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

## Net Receipts from Property Development

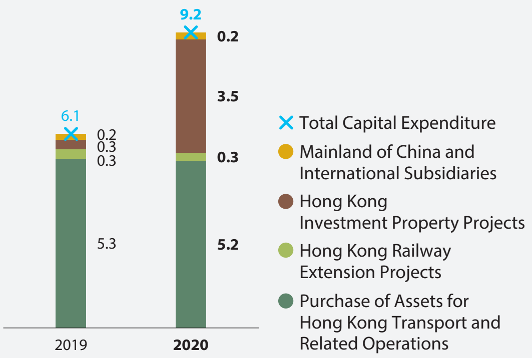
The net receipts from property development of HK$8,171 million mainly comprised cash receipts from LOHAS Park Packages.

## Capital Expenditure

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

Capital Expenditure

*(HK$ billion)*




## Investments in Associates and Joint Venture and Loan to Associates

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

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

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

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

## Dividends Paid to Shareholders of the Company

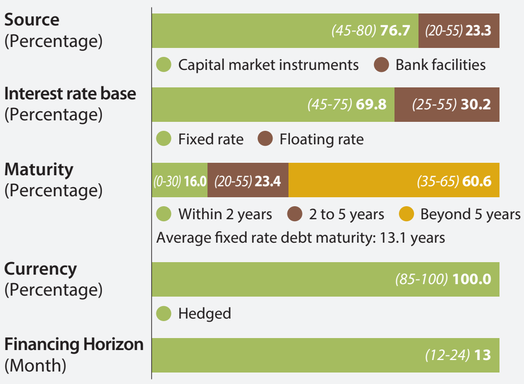
The Group paid dividends of HK$6,808 million (2019: HK$6,649 million) in cash, being the 2019 final dividend of HK$0.98 per share and the 2020 interim dividend of HK$0.25 per share.

# FINANCING ACTIVITIES

### Preferred Financing Model and Debt Profile

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

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




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

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

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

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

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

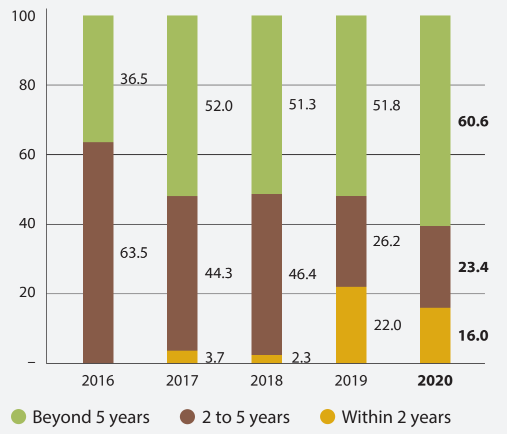
The US$1.2 billion green bond issued in August 2020 under the Sustainable Finance Framework is the largest single-tranche green bond for corporates in Asia-Pacific. The issuance won Hong Kong's "Best Green Bond" Award and, being at the forefront of raising sustainable financing, the Company was also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

## Maturity Profile

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

Maturity Profile

*(Percentage)*




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

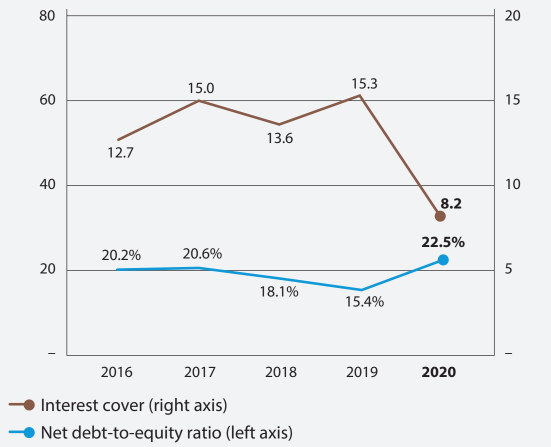
## Gearing Ratio and Net Interest Coverage

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

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

Net Debt-to-Equity Ratio and Interest Coverage

*(Percentage)* *(Times)*

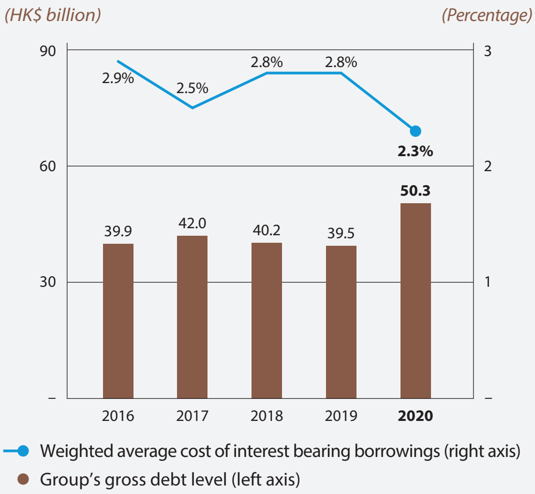


## Cost of Borrowing

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

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

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



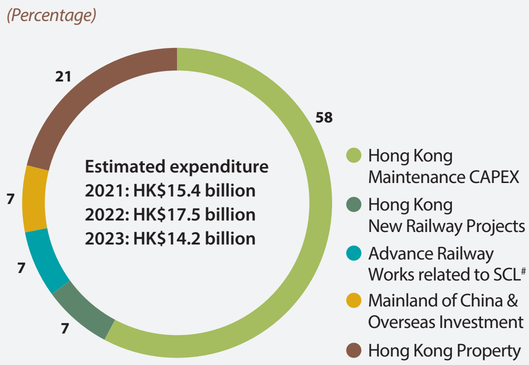

## Capital Expenditure and Investment

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

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

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

### Capital Expenditure and Investment (2021–2023)




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

## Credit Ratings (as of 11 March 2021)

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

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