CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Composite photograph at Admiralty Station

Dear Shareholders and other Stakeholders,

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 Railways 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. Tender for Pak Shing Kok Ventilation Building property development is in progress.

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 2021	2020	Inc./(Dec.) %
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 2021	Patronage Inc./(Dec.) %	Revenue HK$ million 2021	Revenue 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 2021	2020	Inc./(Dec.) %
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 31 December 2021	2020	Inc./(Dec.) %
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, was awarded to a subsidiary of Wheelock Properties Limited. In January 2021, THE SOUTHSIDE Package 5 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 tender for this property development project is in progress. 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.

Year ended 31 December HK$ million	Mainland China and International Businesses								
	Mainland 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**
– Business Development Expenses							**(219)**	(183)	19.7
– Arising from Recurrent Businesses (after Business Development Expenses)							**829**	**411**	**101.7**
– Arising from Mainland China Property Development							**66**	65	1.5
– Arising from Underlying Businesses							**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 Businesses 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 of 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.

Europe Railway Businesses

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 Businesses

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 in overseas.

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 2021	Year ended 31 December 2020	Favourable/(Unfavourable) Change HK$million	Favourable/(Unfavourable) Change %
Total Revenue	**47,202**	42,541	4,661	11.0
Recurrent Business Profit/(Loss)[ζ]				
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 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 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**

ζ: *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 China and international railway, property rental and management businesses and other businesses (excluding fair value measurement on investment properties in Hong Kong and Mainland China).*

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 Mainland 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	Inc./(Dec.) %
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$^{\delta}$	**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

	Year ended 31 December	
HK$ million	**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 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 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 821 reportable events on our heavy rail and light rail networks in Hong Kong, an increase of 12% 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.

Tender for Pak Shing Kok Ventilation Building property development is in progress. 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.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 10 March 2022