FINANCIAL REVIEW

HK$47,202million
Total Revenue
Increased by 11.0%

HK$11,151million
Underlying Business Profit
Increased by 154.5%

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 2021	2020	Favourable/(Unfavourable) Change HK$ million	%
Total Revenue	**47,202**	42,541	4,661	11.0
Recurrent Business Profit/(Loss)				
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	**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
Total Recurrent EBIT Margin# (in %)	**5.0%**	(1.0%)		n/m
Total Recurrent EBIT Margin# (excluding Mainland China and International Subsidiaries) (in %)	**7.8%**	(3.2%)		n/m

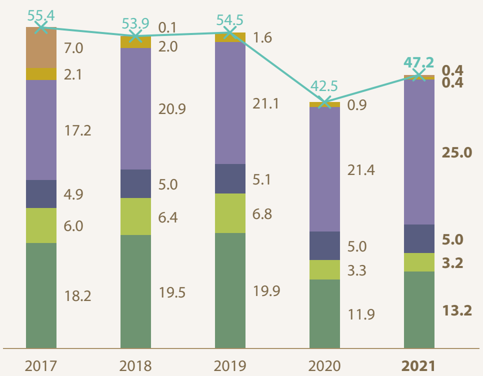
 # : Excluding share of profit of associates and joint ventures
n/m : not meaningful

With the rollout of COVID-19 vaccination schemes around the world and the relaxation of certain social distancing measures, the global economy continued to recover, showing notable improvements starting from the second half of 2021. 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. The increase was mainly due to (i) the increase in Domestic fare revenue of our Hong Kong transport operations ("HKTO") as Domestic patronage continued to recover, (ii) higher contribution from our Melbourne business resulting from recovery in operations and more project activities relating to Melbourne Level Crossing 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. These factors were partly offset by the cessation of project management fee recognition in respect of the Shatin to Central Link ("SCL") project.

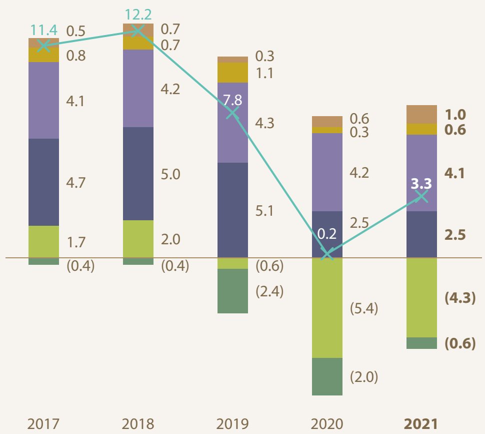
Although our Domestic patronage in Hong Kong showed good signs of recovery when COVID-19 effects eased in second half of 2021 locally, the full year closures of major passenger boundary crossings between Hong Kong and Mainland China and various air travel restrictions continued to have material adverse 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.

Total Recurrent EBIT by Business



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

The Group's total recurrent EBIT (including share of profit of associates and joint ventures as well as project study and business development expenses) in 2021 increased by HK$3,101 million when compared to 2020 to HK$3,297 million. Contributions from respective business are as follows:

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 due to a number of factors. Domestic Service patronage increased following relief in the pandemic situation in second half of 2021. Social distancing measures were relaxed that workers and students resumed offices and schools normally, and leisure travellers rebounded. As a result, Domestic patronage increased by 24.2%. On the other hand, implementation of stringent cost control measures contained operating costs to similar level when compared to 2020. These positive factors were, however, partly offset by several relief measures implemented for our passengers, including the extension of "20% Rebate for Every Octopus Trip" for three months till 31 March 2021, and a fare reduction and rebate of 5% from 1 April 2021 to 31 December 2021.

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 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 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 decrease in EBIT was offset by significant improvements in advertising revenue. Rental income reduced due to (i) full year rental concessions granted to Duty Free Shop concession holders and other station kiosks as a result of the closure of several boundary crossings between Hong Kong and Mainland China while January 2020 was still a normal month, (ii) rental concessions granted to other station kiosks along Domestic Lines in 2020 but amortised to profit and loss in 2021, (iii) rental concessions granted and amortised in 2021, and (iv) rental reversion of -17.0% in 2021 recorded for renewals and new lets. On the other hand, advertising revenue rebounded by 73.3% as the pandemic remained under control in second half of the year together with the Government's Consumption Voucher Scheme encouraged more advertising spent.

Hong Kong property rental and management businesses ("HKPR&M"): EBIT decreased by 3.3% to HK$4,048 million. The decrease was mainly due to (i) rental concessions granted to retail mall tenants in 2020 but amortised to profit and loss in 2021, (ii) rental concessions granted and amortised in 2021, and (iii) rental reversion of -8.6% in 2021 recorded on renewals and new lets. The adverse impact brought by the COVID-19 pandemic was partially offset by the full-year contributions from (i) The LOHAS, our new shopping mall which opened by phases in August and November 2020, and (ii) the Group's newly acquired remaining economic interests in Telford Plaza II and PopCorn 2 since March 2020.

Mainland China and international railway, property rental and management subsidiaries business: EBIT recovered from the adverse impact of COVID-19 to varying degrees in our operations outside of Hong Kong, resulting in an increase in EBIT of 138.3% to HK$622 million. The increase was mainly due to better performance from Melbourne metropolitan rail network as a result of higher franchise income from timetable change and more project activities, higher contribution from the Operations and Maintenance ("O&M") business at Sydney Metro North West in Australia, and patronage recovery for 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 that was not repeated in 2021, and a narrowing of loss at Ngong Ping 360 as guest number gradually recovered after service suspension in 2020 as a result of the COVID-19 pandemic.

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 from HK$605 million in 2020. The increase was mainly due to (i) improvements in our Hangzhou and Beijing operations, which were attributed to patronage increases as the pandemic in Mainland China remained under control, (ii) the full-year profit contribution from our new Hangzhou Metro Line 5 with full line operation since April 2020, and (iii) 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.

Total Recurrent EBIT Margin

Total recurrent EBIT margin has declined since 2019, dropped further in 2020 and rebounded in 2021.

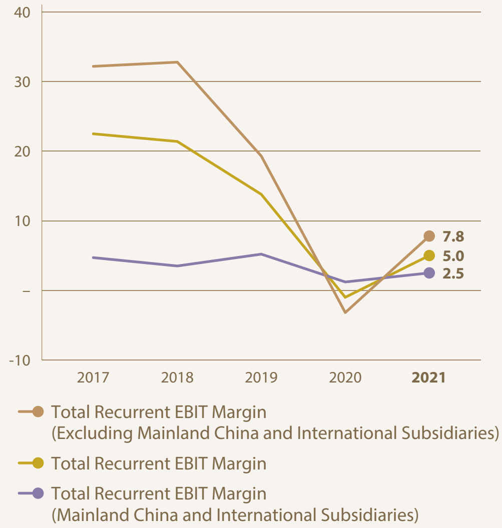
The drop in 2019 was due to the adverse impact of the Public Order Events (POE) in Hong Kong, as well as the one-off provisions made for the Hung Hom incidents of the SCL project in Hong Kong and the South Western Railway franchise agreement in the United Kingdom.

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

In 2021, the improvement was mainly due to the recovery from the adverse impact of the COVID-19 pandemic of our operations, mainly in Hong Kong, Mainland China and Australia, as well as the freeing from the foregoing one-off provisions.

Total Recurrent EBIT Margin^

(Percentage)



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

Interest and Finance Charges

Interest and finance charges for recurrent businesses were HK$1,045 million, representing a decrease of 4.7% from 2020. This was mainly due to lower net interest expense as a result of lower average net borrowing. A detailed review of the Group's financing activities is featured in the ensuing section.

Income Tax

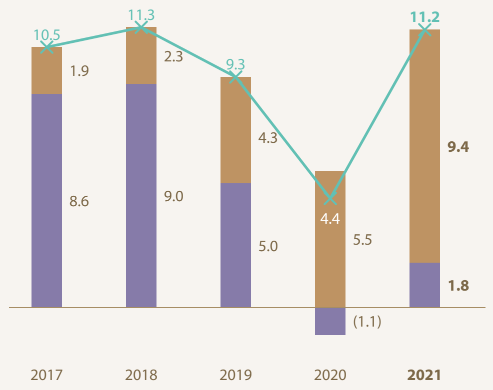
Income tax for recurrent businesses was HK$317 million, an increase of 33.8% from 2020 due to improved financial performance.

Property Development Profit (Post-tax)

The Group's property development profit (post tax) was HK$9,343 million, representing an increase of 69.7% from 2020. Property development profit for 2021 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), MARINI, GRAND MARINI and OCEAN MARINI (LOHAS Park Package 9), and sales of inventory units, while profit recorded for 2020 was mainly contributed by the share of surplus proceeds and income of LP6 (LOHAS Park Package 6).

Underlying Business Profit

The Group's underlying business profit was HK$11,151 million, representing an increase of HK$6,770 million (154.5%) from 2020. The increase was contributed by HK$2,934 million and HK$3,836 million from Recurrent Business Profit and Property Development Profit (Post-tax) respectively.



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) for the year ended 31 December 2021, compared to a revaluation loss of HK$9,190 million for 2020.

The revaluation loss, being a non-cash item, representing an approximately 2.5% drop against the value as of 31 December 2020, was mainly explained by the continued negative rental reversions recorded in 2021.

Net Profit Attributable to Shareholders of the Company

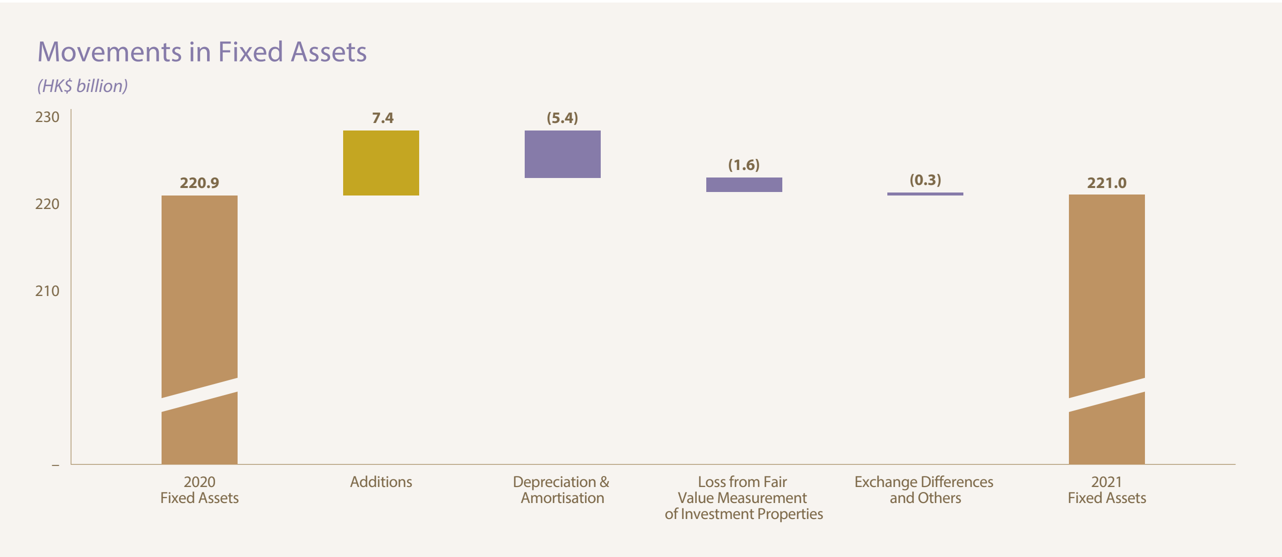
Taking into account the Group's recurrent businesses, property development businesses and loss from fair value measurement of investment properties, the Group reported a net profit attributable to shareholders of the Company of HK$9,552 million for the year ended 31 December 2021, compared to a net loss of HK$4,809 million for 2020.

STATEMENT OF FINANCIAL POSITION

HK$ million	As at 31 December 2021	As at 31 December 2020	Inc./(Dec.) HK$ million	Inc./(Dec.) %
Fixed Assets	**221,032**	220,932	100	0.0
Property Development in Progress	**11,215**	11,942	(727)	(6.1)
Interests in Associates and Joint Ventures	**12,442**	11,592	850	7.3
Debtors and Other Receivables	**14,797**	13,313	1,484	11.1
Cash, Bank Balances and Deposits	**20,970**	20,906	64	0.3
Other Assets	**11,626**	11,889	(263)	(2.2)
Total Assets	**292,082**	290,574	1,508	0.5
Total Loans and Other Obligations	**(43,752)**	(50,340)	(6,588)	(13.1)
Creditors and Other Liabilities	**(43,644)**	(38,833)	4,811	12.4
Obligations Under Service Concession	**(10,231)**	(10,295)	(64)	(0.6)
Deferred Tax Liabilities	**(14,418)**	(14,125)	293	2.1
Total Liabilities	**(112,045)**	(113,593)	(1,548)	(1.4)
Net Assets	**180,037**	176,981	3,056	1.7
Represented by:				
Total Equity Attributable to Shareholders of the Company	**179,714**	176,788	2,926	1.7
Non-controlling Interests	**323**	193	130	67.4
Total Equity	**180,037**	176,981	3,056	1.7

Fixed Assets

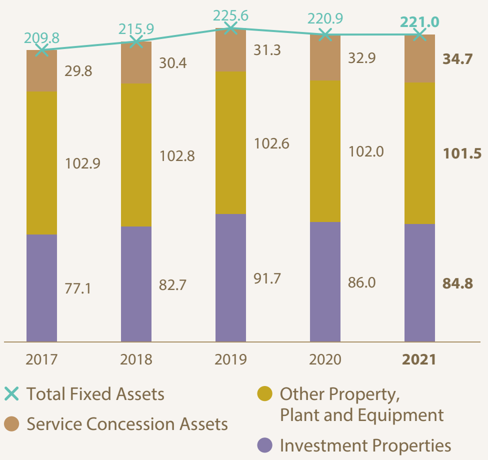
Fixed assets increased marginally by HK$100 million to HK$221,032 million, mainly due to additions of HK$7,457 million spent on renewal and upgrade works for our existing Hong Kong railway network and investment property portfolio, as well as service concession assets in respect of Shenzhen Metro Line 13, and partly offset by total depreciation and amortisation of HK$5,430 million for the year and the loss from fair value measurement of our investment property portfolio of HK$1,616 million.



The graph below shows fixed assets trend over the past five years.

Fixed Assets Trend

(HK$ billion)



Property Development in Progress

Property development in progress decreased mainly due to profit recognition of LOHAS Park packages during the year.

Interests in Associates and Joint Ventures

Interests in associates and joint ventures increased mainly due to share of profit from associates and joint ventures, as well as exchange gain on the carrying amounts of investments arising primarily from the appreciation of the Renminbi.

Debtors and Other Receivables

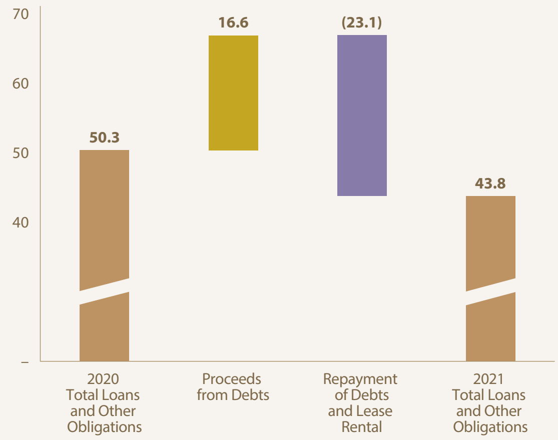
Debtors and other receivables increased mainly due to the increase in property development receivables upon recognition of the property development profits of LOHAS Park packages 7 – 9.

Total Loans and Other Obligations

Total loans and other obligations decreased mainly due to net repayment of loans.

Movements in Total Loan and Other Obligations

(HK$ billion)



Creditors and Other Liabilities

Creditors and other liabilities increased mainly due to the increase in the advance cash received in respect of our Hong Kong property developments.

Total Equity

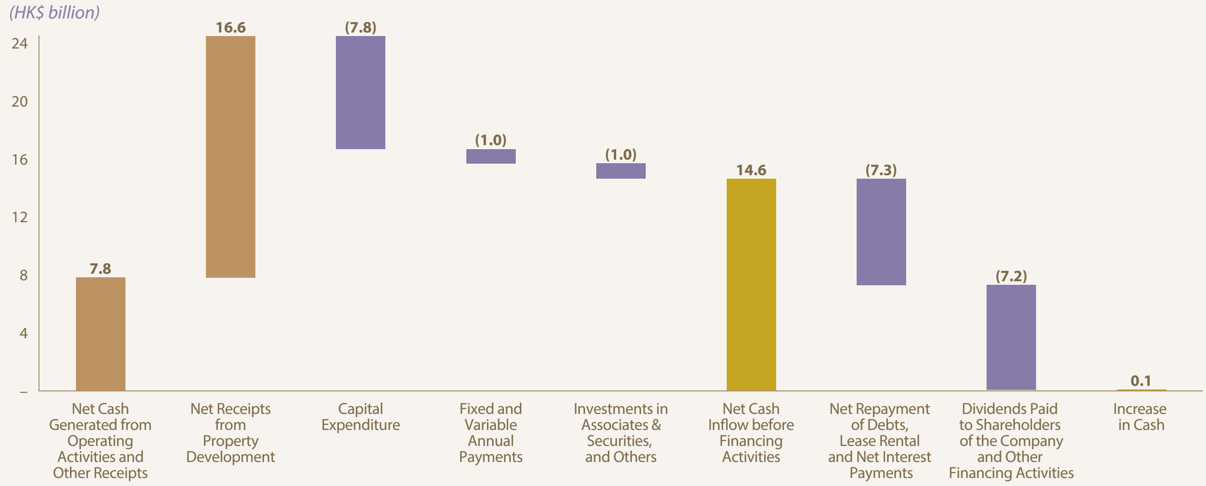
Total equity increased by HK$3,056 million. This was mainly due to the underlying business profit recorded for the year, and partly offset by the loss from fair value measurement of investment properties and the payments of the 2020 final and 2021 interim ordinary dividends during the year.

CASH FLOW

HK$ million		2021		2020
Net Cash Generated From Operating Activities and Other Receipts		**7,833**		916
Receipts from Property Development		**17,779**		8,583
Net Cash Receipts		**25,612**		9,499
Capital Expenditure		**(7,785)**		(9,249)
Payments in respect of Property Development		**(1,137)**		(412)
Fixed Annual Payment		**(750)**		(750)
Variable Annual Payment		**(238)**		(2,583)
Investments in Associates and Securities		**(1,013)**		(140)
Others Payments		**(52)**		(81)
Total Cash Outflow		**(10,975)**		(13,215)
Net Cash Inflow/(Outflow) before Financing Activities		**14,637**		(3,716)
Net (Repayment)/Drawdown of Debts, and Lease Rental Payments	**(6,583)**		10,145	
Net Interest Payment	**(734)**		(484)	
Net (Repayment)/Drawdown of Debts, Lease Rental and Net Interest Payments		**(7,317)**		9,661
Dividends Paid to Shareholders of the Company		**(7,165)**		(6,808)
Other Financing Activities		**(49)**		(9)
Increase/(Decrease) in Cash		**106**		(872)
Cash, Bank Balances and Deposits as at 1 January		**20,906**		21,186
Increase/(Decrease) in Cash		**106**		(872)
Effect of Exchange Rate Changes		**(42)**		592
Cash, Bank Balances and Deposits as at 31 December		**20,970**		20,906

Cash Flow for the Year Ended 31 December 2021

(HK$ billion)



Net Cash Generated from Operating Activities and Other Receipts

Net cash generated from operating activities and other receipts increased by HK$6,917 million to HK$7,833 million in 2021 from HK$916 million in 2020. This was mainly due to the increase in operating profit due to the recovery from the COVID-19 pandemic, and less cash tax paid in 2021.

Net Receipts from Property Development

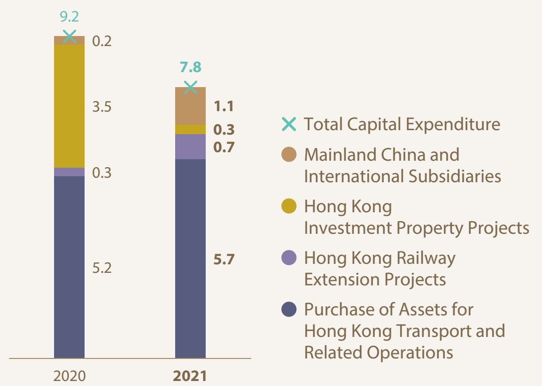
The net receipts from property development of HK$16,642 million comprised mainly cash receipts from THE SOUTHSIDE, LOHAS Park and Ho Man Tin Station packages.

Capital Expenditure

In 2021, capital expenditure of HK$7,785 million comprised cash outflow of HK$5,720 million for Hong Kong transport and related operations, HK$1,069 million for Mainland China and International subsidiaries, HK$716 million for Hong Kong railway extension projects and HK$280 million for Hong Kong investment property projects.

Total Capital Expenditure

(HK$ billion)



Net Repayment of Debts, Lease Rental and Net Interest Payments

In 2021, net repayment of debts, lease rental and net interest payments of HK$7,317 million comprised of (i) repayment of HK$23,115 million mainly relating to loans, (ii) net interest payment of HK$734 million, partly offset by (iii) proceeds of HK$16,532 million from loans and capital market instruments.

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

Dividends Paid to Shareholders of the Company

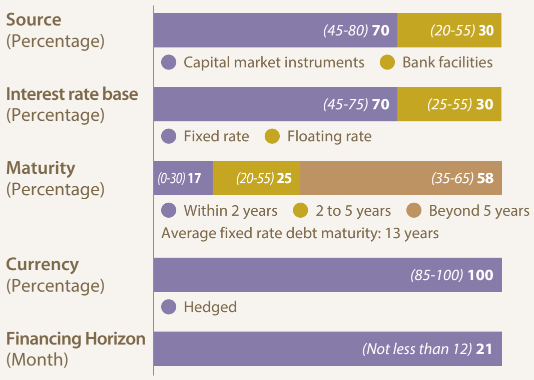
The Group paid dividends of HK$7,165 million (2020: HK$6,808 million) in cash, being the 2020 final dividend of HK$0.98 per share and the 2021 interim dividend of HK$0.25 per share.

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 2021



The Company's businesses continued to be affected by the closure of the boundary. Cash flows from property development projects, however, provided further support to the financial strength of the Company.

Short term interest rates for both USD and HKD remained low whereas the long-end benchmark rates rose. The 3-month USD Libor fell to 0.21% p.a. at year-end from 0.24% p.a. at the start of the year. Likewise, the 3-month HKD Hibor fell to 0.26% p.a. from 0.35% p.a. The 10-year US Treasury yield rose to 1.51% p.a. at year-end from 0.91% p.a. at the start of the year, while the 10-year HKD swap rate rose to 1.54% p.a. from 0.86% p.a. The US Federal Reserve began reducing the monthly amount of its net asset purchases in November 2021.

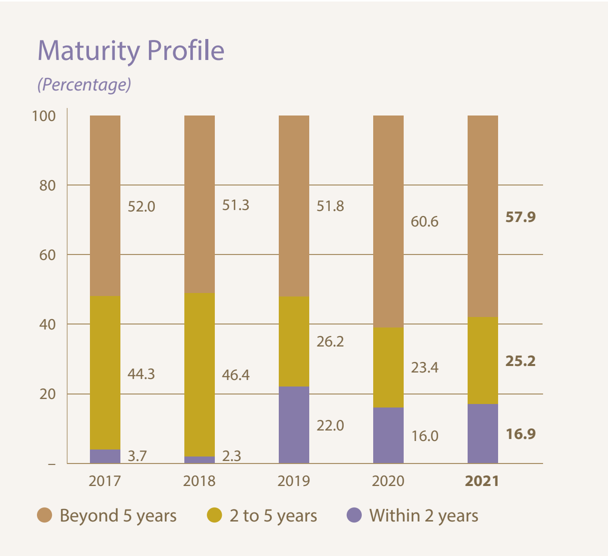
The Company has taken advantage of low interest rates over the last few years to hedge a majority proportion of its borrowings in the form of fixed interest rates. As at the end of 2021, the proportion of fixed rate borrowings of the Company stood at 70%, which will help mitigate the impact of interest rate hikes that are expected in 2022.

Financing totalling approximately HK$9.6 billion was arranged by the Company in 2021, including the equivalent of HK$5.2 billion from MTN issued with maturities ranging between one and three years and the equivalent of HK$4.4 billion from bank loans with maturities between one and five years. Out of the total financing in 2021, HK$4.8 billion was arranged under our Sustainable Finance Framework, where the proceeds were earmarked for eligible green investments.

The Group also closed a CNY 3.2 billion project finance in Shenzhen to fund the construction of Shenzhen Metro Line 13 in April 2021.

Maturity Profile

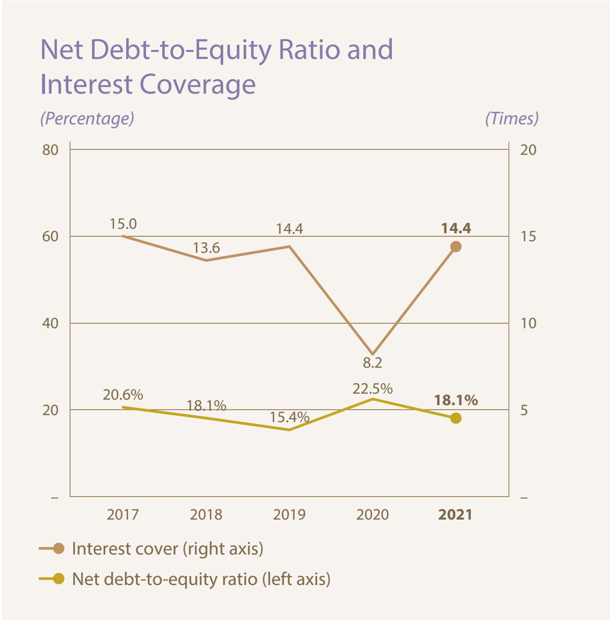
The graph below shows the maturity profiles of the Company's interest-bearing borrowings at year-end 2017-2021. The spread of the maturities of the Company's borrowings helps diversify the refinancing risk of the Company.



Gearing Ratio and Net Interest Coverage

The Group's gearing ratio, as measured by net debt-to-equity ratio, decreased by 4.4% points to 18.1% at year-end 2021 from 22.5% at year-end 2020 mainly due to a decrease in net debts as a result of the cash receipts from our Hong Kong property development business. The Group's interest cover increased from 8.2 times to 14.4 times.

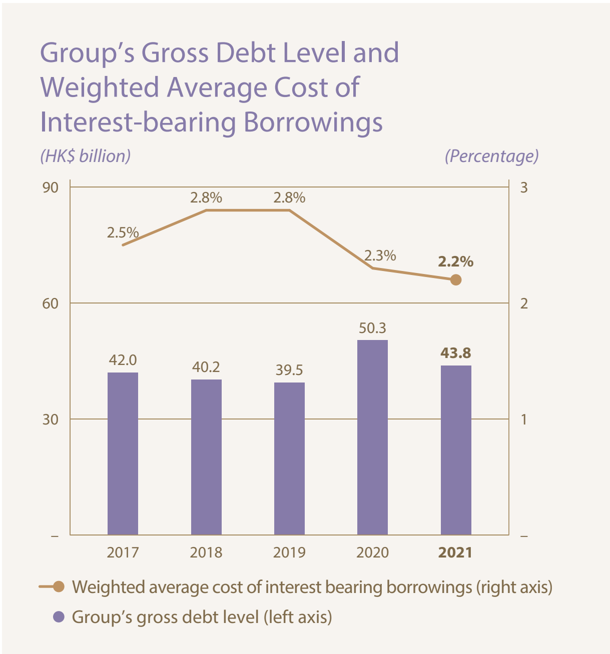
The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years.



Cost of Borrowing

The Group's consolidated gross debt position decreased to HK$43,752 million at year-end 2021 from HK$50,340 million at year-end 2020. The weighted average cost of the Group's interest-bearing borrowings decreased to 2.2% p.a. in 2021 from 2.3% p.a. in 2020 mainly due to lower average cost of floating rate borrowing resulting from lower Hibor.

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



Capital Expenditure and Investment

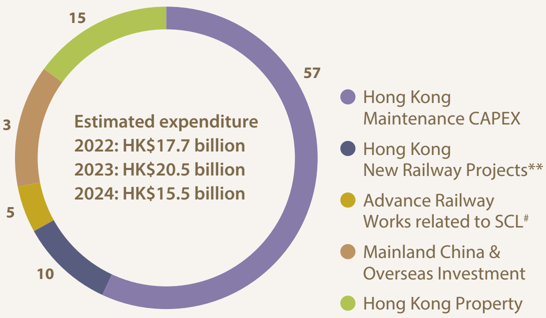
The Group's capital expenditure and investment can be categorised into the followings: Hong Kong railway projects (further classified into maintenance work for existing railways, SCL advance work and new projects), Hong Kong property investment and development, and Mainland China and overseas investments. Total spending from 2022 to 2024 is estimated at HK$53.7 billion.

Capital expenditure on Hong Kong railway projects will continue to constitute a significant portion of capital expenditure in 2022 to 2024, especially when the detailed design work and advance work for new railway projects are in full steam. The capital works expenditure and the funding terms of the RDS 2014 new projects can only be ascertained after our entering into the relevant project agreements with the Government.

The Group believes that based on its cash balance of HK$21 billion and total available committed banking facilities of more than HK$15 billion as at 31 December 2021, 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 (2022–2024)

(Percentage)



** *Including planning and design CAPEX for New Railway Projects, but excluding related construction CAPEX which are subject to the signing of project agreements.*

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 which MTR would have otherwise incurred.

Credit Ratings (as of 10 March 2022)

Credit ratings	Short-term*	Long-term*
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*