Stock code: 66

Excellence in Motion

ANNUAL REPORT 2021

CONTENTS

Welcome to MTR's Annual Report 2021, a detailed account of the Company's efforts to keep cities moving and deliver shareholders' value despite the on-going operational and economic challenges of the global pandemic. During the year, we also took great strides in our continued transformation, strengthening and shaping our organisation around principles of corporate responsibility, environmental stewardship and governance as well as innovation, technological advancement and business expansion – foundations that will enable MTR to remain a global leader in safe, reliable and green railway transit.

In addition, we are proud to present our Sustainability Report 2021, which shares our efforts to integrate relevant and material sustainability measures throughout our operations.

We hope that these reports provide you with a clear view of our activities, results, and future strategies for the mutually beneficial growth of MTR and its communities. With the cherished support of our shareholders and stakeholders, we will, as always, continue striving to deliver the type of performance that embodies excellence in motion.

Annual Report 2021

Sustainability Report 2021

OVERVIEW

BUSINESS REVIEW AND ANALYSIS

Excellence in Motion

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

Our Purpose
Keep Cities Moving

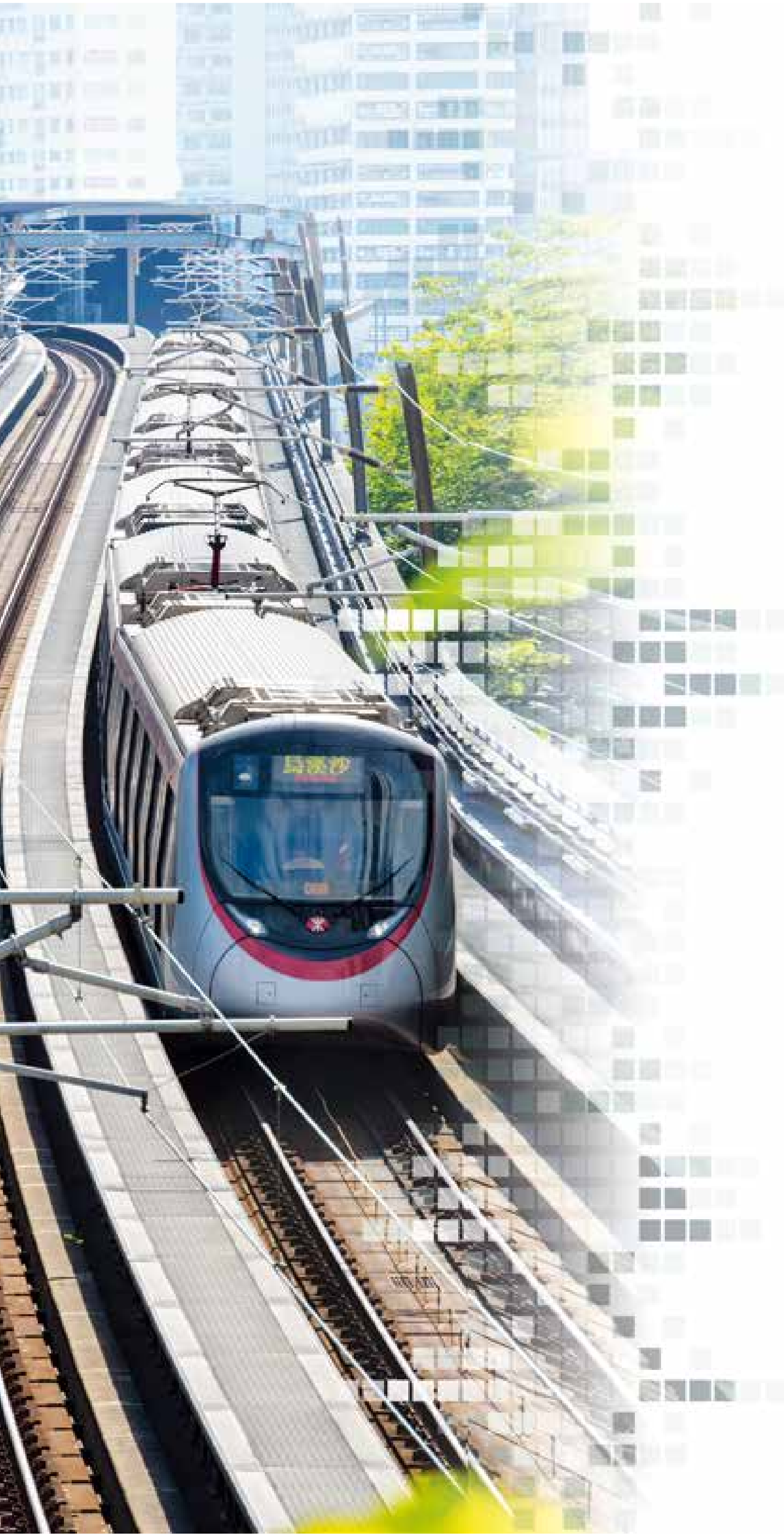
Our Values
- Excellent Service
- Value Creation
- Mutual Respect
- Enterprising Spirit

Our Cultural Focus Area
- Participative Communication
- Collaboration
- Effectiveness & Innovation
- Agility to Change

CORPORATE GOVERNANCE

FINANCIALS AND OTHER INFORMATION

HIGHLIGHTS



Hong Kong Businesses

1.6+ billion
Total Patronage in Hong Kong

99.9%
Passenger Journeys On-time

Full Tuen Ma Line
Commenced Service

Awarded
THE SOUTHSIDE
Package 5 and Package 6

Mainland China and International Businesses

Final Section of Beijing Metro Line 14 and **Initial Section of Beijing Metro Line 17**
Commenced Service

Mainland China Railway Businesses
99.9%
Passenger Journeys On-time

Took Over Operations of
Mälartåg Regional Traffic
in Sweden

Environmental, Social and Governance

Set **Science-based Carbon Reduction Targets** for **2030**, with an Aim of Achieving **Carbon Neutrality** by **2050**

COVID-19 Relief including

- Fare Rebates offered
- Rental Concessions granted
- Free Tickets offered to healthcare workers
- Collaboration with Charitable Organisations to help people in need

Reorganisation of **Board Committees** to further Strengthen Governance and Effectiveness

Growth and Outlook

Opening of **East Rail Line Cross-Harbour Extension** Targeting June/July 2022

Tung Chung Line Extension and **Tuen Mun South Extension** have been gazetted, Progressing projects under **RDS 2014**

Supporting Government on **Northern Metropolis Development Strategy**

20,000 Residential Units and **2 Shopping Malls** under Development

COVID-19 Challenges

CORPORATE STRATEGY PROGRESS AND PLANS

HONG KONG CORE

KPI

- Advancing **Social and Environmental Objectives**
- **Continuing Growth** in our current businesses and expanding into adjacent businesses
- **Adopting Technology** to enhance customer experience and work optimisation

2021 ACHIEVEMENTS

- Established **3 Social and Environmental Objectives, 10 Commitments and 30+ KPIs**
- **Full Tuen Ma Line** commenced service
- **Identified Opportunities** in smart mobility and maintenance
- Continued to **Optimise Operational** overheads
- Continuing to progress projects under **Railway Development Strategy 2014** ("RDS 2014")
- Awarded **THE SOUTHSIDE Package 5 and Package 6** in Wong Chuk Hang

MAINLAND CHINA AND INTERNATIONAL BUSINESS

KPI

- **Exploring New Product Offerings** and **Cities** while pursuing excellence in current projects
- **Exporting Our Brand** and **Know-how** in railway services to major growth markets outside Hong Kong

2021 ACHIEVEMENTS

- **Final Section of Beijing Metro Line 14** and **Initial Section of Beijing Metro Line 17** commenced service
- Secured land use right of **Hangzhou West Station Transit-oriented development** project
- Took over operations of **Mälartåg Regional Traffic** in Sweden
- Launched **Global Operations Standard** that will leverage our strong capabilities in railway operations to establish a model for the future in the other cities where we operate

NEW GROWTH ENGINE

KPI

- Established MTR Lab to enable **Technology Growth and Investments**
- Reinforcing core and growing by investing in **Technology Start-ups**

2021 ACHIEVEMENTS

- Developed **MTR Lab** holding structure, operating and governance model, and investment framework

During the year under review, MTR continued to make strong progress in the implementation of its new Corporate Strategy, "Transforming the Future". The successful execution of this strategy has created a robust matrix organisation offering faster, more effective managerial response, enhanced collaboration, and improved accountability with a strengthened "three lines of defence". This Corporate Strategy also sets out well-defined environmental, social and governance ("ESG") objectives to guide the Company's operations (including its core Hong Kong Businesses, Mainland China and International Businesses, and New Growth Engine) which enables us to achieve sustainable, mutually beneficial growth for the Company and its communities.

PLAN FOR 2022 AND BEYOND

- Track progress towards achieving **Social and Environmental KPIs**; implement **ESG Investment Framework**
- Continue **Investing in Productivity Enhancement** through technology and streamlining/ synergetic benefits
- **East Rail Line cross-harbour extension** targeted to open in June/July 2022
- Fully supporting **Northern Metropolis Development Strategy**
- **Continue Property Tendering Activities**
- About **20,000 Residential Units and Two Shopping Malls** currently under development
- Launch a **New Data Centre Business Line**

- Continue to **Identify Growth Opportunities Outside Hong Kong** to maintain brand presence and diversify revenue streams
- Continue delivering **Operational Excellence** to fulfil and renew existing contracts and win new ones

- **Support MTR's Core Business** to reinforce tech capabilities and provide technological solutions accordingly
- **Explore Partnership Models** to conduct R&D and joint venture business
- Invest in **High-Potential, Adjacent Companies** in their early growth stages to build capability and diversify revenue streams

RISKS

- **COVID-19 Pandemic** presenting severe challenges to people's day-to-day activities and creating adverse impacts on local patronage and foot traffic in station shops and shopping malls
- **On-going Boundary Closures and Travel Restrictions** expected to continue impacting fare revenue, Duty Free shops and shopping malls

- **Keen Competition and Complex Geopolitics**
- **Pandemic** resulting in reduced business travel and/or local engagement; more time and effort required

- **Tech Sector** is inherently **High Risk**

STAKEHOLDER ENGAGEMENT

STAKEHOLDER GROUP

CUSTOMERS
Fare Concessions
Digital Marketing

INVESTORS
Online Meetings
Financial Reports
Annual General Meeting

HONG KONG BUSINESSES
2021 ENGAGEMENT ACTIONS AND ACHIEVEMENTS

CUSTOMERS

- Provided on-going fare concessions and additional fare rebates to help people ride out the difficulties of the pandemic
- Conducted personalisation and engagement activities on MTR Mobile app
- Launched smart mobility initiatives to tackle pain points and needs in the customer journey from start to finish
- Provided seamless experience enabling passengers to enjoy a wide variety of goods and services in station shops and connecting shopping malls
- Conducted targeted digital marketing campaigns via MTR Mobile app and launched "eVouchers" to engage customers

INVESTORS

- Conducted more than 180 online meetings with investors to provide guidance on the unprecedented effects of the pandemic on our various businesses
- Issued regular updates of key figures on website and in financial reports
- Hosted Annual General Meeting to communicate face to face with Directors about the Company's performance and operations

GOVERNMENT AND REGULATORS

- Worked closely with Government on railway projects under Railway Development Strategy 2014 ("RDS 2014") and supported Government's Northern Metropolis Development Strategy
- Supported community work of LegCo and District Councils by arranging various activities and providing sponsorships
- Welcomed participation of Government officials and departments in events including test drills and opening ceremonies

COMMUNITIES

COVID-19 Care Initiatives
- Donated masks to local and ethnic minority families
- Distributed free Airport Express tickets for on-duty healthcare workers
- Provided rental concessions to station shops and shopping mall tenants
- Collaborated with social enterprises and charitable organisations to serve food and daily necessities to those in need

On-going Initiatives
- Held career and life planning events for students (e.g., "'Train' for Life's Journeys" programme)
- Provided sponsorships and volunteer services to NGOs and ethnic minorities
- Held annual collaboration with RTHK Radio 5 to raise safety awareness among the elderly

CONTRACTORS AND SUPPLIERS

- Ensured the health and safety of suppliers by providing support and assistance during the COVID-19 pandemic
- Provided performance feedback to suppliers using the Supplier Appraisal System for their continuous improvement
- Conducted Supplier Management Meetings with key suppliers to strengthen business relations

EMPLOYEES

COVID-19 Care Initiatives
- Provided protective equipment; piloted a work-from-home arrangement, introduced staggered working hours and allowed casual wear for office staff; launched an emotional wellness learning portal, health talks, and a 24-hour medical and counselling hotline; arranged COVID-19 vaccination outreach services; and provided well-being leave for vaccinated staff

Employee Engagement Survey
- Employee Engagement Survey launched in December 2021 for all full-time staff in Hong Kong and managers in wholly owned subsidiaries outside Hong Kong; overall response rate at nearly 80%

On-going Initiatives
- Two-tiered Staff Consultative Council (SCC) at corporate level and Joint Consultative Committees (JCCs) at departmental/sectional levels
- Grand Awards and Long Service Awards
- Metro Recreation Club

Community Work
Government Policy
Northern Metropolis Development Strategy
RDS 2014

GOVERNMENT AND REGULATORS

MTR Mobile app
Station Shops
Smart Mobility

COVID-19 Caring Initiatives
On-going Initiatives
Employee Engagement Survey

EMPLOYEES

Health and Safety
Supplier Appraisal System
Supplier Management Meetings

CONTRACTORS AND SUPPLIERS

COVID-19 Caring Initiatives
On-going initiatives

COMMUNITIES

ACTIONS FOR 2022 AND BEYOND

- Continue to provide on-going fare concessions and other promotions
- Continue to build and enrich MTR Mobile's customer profile to enhance personalisation and engagement, including via digital marketing campaigns
- Engage various passenger groups to develop smart mobility initiatives throughout the entire MTR network, along with applications that enhance the customer experience across all touchpoints
- Leverage advanced data platforms to enable data-driven personalisation and applications for general passengers and specific customer segments
- Continue to diversify and optimise trade mix according to the latest trends and customer preferences

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- Continue to keep investors informed of all key announcements and updates via various channels
- Plan for physical meetings and roadshows when the pandemic situation allows

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- Continue to support Government's policy of using railways as the backbone of Hong Kong's public transportation system
- Acknowledge and engage the proposed Railways Department and new bureau
- Continue other on-going engagement initiatives

- Organise initiatives to support the community during the pandemic, including station shop and shopping mall tenants as well as healthcare workers
- Provide updates on social and environmental engagement strategy in accordance with social and environmental objectives to ensure that MTR programmes suit the needs of different groups in society
- Expand the railway network to connect more communities with safe, environmentally friendly, affordable and accessible mass transit
- Continue other on-going engagement initiatives

- Conduct survey for key suppliers to understand challenges and potential improvements regarding service support to MTR Corporation
- Organise exchange and training sessions regarding ESG initiatives and best practices for related supplier categories
- Establish long-term strategy for focus categories and suppliers
- Formalise Supplier Review Meeting scheme and supplier audit plan for MTR Corporation
- Commence procurement activities for the major new railway extension projects

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- Enhance COVID-19 care initiatives with new measures
- Communicate survey results to staff in February/March 2022, followed by action planning to address staff feedback. Conduct pulse survey by end of 2022 to track progress action planning effort. Hold next survey in 2024
- Continue other on-going engagement initiatives

3 SOCIAL AND ENVIRONMENTAL OBJECTIVES

Social Inclusion

As a provider of public transport services for all, social inclusion lies at the very heart of who we are and what we do

Advancement & Opportunities

As we fulfil our vision to connect and grow communities, we create opportunities for the people of the communities to develop themselves and grow alongside us

GHG Emissions Reduction

As a low-carbon transport provider, we are committed to managing our environmental footprint and achieving carbon neutrality

10 commitments and some of the key KPIs

Universal Basic Mobility

100%
of Our New Stations will be Accessible (including barrier free entrances, wide gates, accessible toilets and baby care rooms)

Diversity & Inclusion

25%
of Our Board of Directors will be Women by 2025

Equal Opportunities

HK$100 million
will be Spent on Direct Local Community Investment and Donations from 2022 to 2025

Employees

At least 5 Learning Days
will be Provided to Employees on Average Every Year

Business Partners

HK$250 million
will be Spent on Green Procurement in 2025;
Rising to HK$350 million in 2030

Future Skills & Innovation

HK$300 million+
will be invested in startups from 2022 to 2025

Carbon Emissions

Set Science-based Targets
for our railway and property businesses in Hong Kong
for 2030

Clean Energy and Energy Efficiency

1 million kWh
of Renewable Energy will be Generated by 2023

Waste Management

25%
of Our Shopping Mall Food and Beverage Tenants will Join Our Food Waste Reduction Programme in 2022

Green and Low-carbon Designs

100%
Future New Stations & New Residential Development Projects will Attain BEAM Plus Gold or Above Certification

KEY AWARDS

Hong Kong Transport Operations

- **Public Transportation Category Award, Hong Kong Service Awards 2021**
  East Week
- **Category Award of Public Transportation, Sing Tao Service Awards 2020**
  Sing Tao Daily
- **Public Transportation Service Award, Elite Awards 2020**
  Ming Pao Weekly
- **Triple Gold Award (Website Stream) and Triple Gold Award (Mobile App Stream), 2020-2021 Web Accessibility Recognition Scheme**
  Hong Kong Internet Registration Corporation Limited
- **Smart Mobility (Smart Transport) – Bronze Award, The Hong Kong ICT Awards 2021**
  GS1 Hong Kong
- **Gold Award – Digital Service Strategy Award and Silver Award – Smart Service Award, HKACE Customer Service Excellence Award 2021**
  Hong Kong Association of Customer Service Excellence
- **Outstanding Digital Travel Experience, Smart Living Partnership Awards 2021**
  ET Net Limited

Environmental, Social and Governance

- **Three awards received in HR Distinction Awards**
  HumanResources Magazine
- **Equal Opportunity Employer Awards, Gender Equality, Equality for Diverse Abilities and Family Status Equality category**
  Equal Opportunities Commission
- **15 Years Plus Caring Company Logo**
  Hong Kong Council of Social Service
- **Ninth Top Donor of the Year Award**
  The Community Chest
- **Greater Bay Area Corporate Sustainability Awards 2021 – GBA's Outstanding Corporation**
  - **Social Sustainability Award – Sustainable Cities and Communities**
  - **Environmental Sustainability Award – Climate Action**

  Metro Finance
- **Corporate Responsibility Award, Hong Kong Service Awards 2021**
  East Week
- **Six awards received in Hong Kong Sustainability Award 2020/21**
  The Hong Kong Management Association

Hong Kong Property and Other Businesses

- **ELEMENTS**
  - **Excellent Service Award and Outstanding Achievement Award, Hong Kong Service Awards 2021**
    East Week
  - **Top Ten Malls , Best in Viral Marketing and Best Charity Campaign, Digital EX Awards 2021**
    Metro Finance
- **Telford Plaza**
  - **Shopping Mall Award for Warm Service, Hong Kong Service Awards 2021**
    East Week
  - **Barrier Free Accessibility (BFA) Management Systems Certification and Anti-Epidemic Hygiene Measures Certification Scheme**
    Hong Kong Quality Assurance Agency
- **The LOHAS**
  - **Six awards received in Galaxy Awards 2021**
  - **Five awards received in Questar Awards 2021**
    Mercomm Inc. International Awards Programs
  - **Seven awards received in Stevie Awards 2021**
    Stevie Awards
  - **Excellent in Digital Marketing, HK01 Gold Medal Award 2021**
    HK01
- **Maritime Square**
  - **Excellent Sustainable Shopping Mall Award, HK01 Gold Medal Award Ceremony 2021**
    HK01
- **Two ifc**
  - **BEAM Plus EB V2.0 Comprehensive Scheme – Platinum**
    Hong Kong Green Building Council
  - **LEED v4 (Gold)**
    The U.S. Green Building Council and verified by Green Business Certification INC

Mainland China and International Businesses

- **TfL Rail**
  Gold Whistle (Best Performance), Golden Whistle Award 2021
  Modern Railways and the Institution of Railway Operators
- **MTM**
  Gold Quill Award of Merit for outstanding work on Covid-19
  International Association of Business Communicators
- **BJMTR**
  2021 China Best Employers Award Top 100
  Zhaopin.com and Harvard Business Review
- **MTR(SZ)**
  2020/2021 Annual Awards for National Excellent Foreign-Invested Enterprises
  China Association of Enterprises with Foreign Investment and Shenzhen Association of Enterprises with Foreign Investment

Finance and Investor Relations

- **Best Public Service Financial Management Team Hong Kong 2021 Award**
  Capital Finance International
- **Outstanding Award for Green and Sustainable Bond Issuer (Transportation Industry) – Largest Single Green Bond, Hong Kong Green and Sustainable Finance Awards 2021**
  Hong Kong Quality Assurance Agency
- **Bronze Award – General Category, 2021 Best Annual Reports Awards**
  The Hong Kong Management Association
- **Five awards received in 2021 International Annual Reports Competition (ARC) Awards**
  MerComm, Inc.

KEY FIGURES

	2021 HK$ million	2021 %	2020 HK$ million	2020 %	Favourable/ (Unfavourable) Change %
Total revenue					
Recurrent business revenue					
– Hong Kong transport services					
– Hong Kong transport operations	**13,177**	**27.9**	11,896	28.0	10.8
– Hong Kong station commercial businesses	**3,208**	**6.8**	3,269	7.7	(1.9)
– Hong Kong property rental and management businesses	**5,036**	**10.7**	5,054	11.9	(0.4)
– Mainland China and international railway, property rental and management subsidiaries	**25,045**	**53.1**	21,428	50.3	16.9
– Other businesses	**383**	**0.8**	894	2.1	(57.2)
	46,849	**99.3**	42,541	100.0	10.1
Property development business revenue					
– Mainland China property development	**353**	**0.7**	–	–	n/m
Total revenue	**47,202**	**100.0**	42,541	100.0	11.0
Total EBITDA[1]					
Recurrent business EBITDA					
– Hong Kong transport services					
– Hong Kong transport operations	**834**	**4.3**	(422)	(3.6)	n/m
– Hong Kong station commercial businesses	**2,728**	**14.2**	2,760	23.6	(1.2)
– Hong Kong property rental and management businesses	**4,066**	**21.1**	4,204	36.0	(3.3)
– Mainland China and international railway, property rental and management subsidiaries	**890**	**4.7**	533	4.6	67.0
– Other businesses, project studies and business development expenses	**(499)**	**(2.6)**	(1,881)	(16.1)	73.5
	8,019	**41.7**	5,194	44.5	54.4
Property development business EBITDA					
– Hong Kong property development	**11,097**	**57.6**	6,491	55.6	71.0
– Mainland China property development	**129**	**0.7**	(13)	(0.1)	n/m
	11,226	**58.3**	6,478	55.5	73.3
Total EBITDA	**19,245**	**100.0**	11,672	100.0	64.9
Total EBIT[2]					
Recurrent business EBIT					
EBIT					
– Hong Kong transport services					
– Hong Kong transport operations	**(4,262)**	**(29.4)**	(5,408)	(81.0)	21.2
– Hong Kong station commercial businesses	**2,488**	**17.1**	2,502	37.5	(0.6)
– Hong Kong property rental and management businesses	**4,048**	**27.9**	4,185	62.7	(3.3)
– Mainland China and international railway, property rental and management subsidiaries	**622**	**4.3**	261	3.9	138.3
– Other businesses, project studies and business development expenses	**(567)**	**(3.9)**	(1,949)	(29.2)	70.9
Share of profit of associates and joint ventures	**968**	**6.7**	605	9.1	60.0
	3,297	**22.7**	196	3.0	n/m
Property development business EBIT					
– Hong Kong property development	**11,097**	**76.4**	6,491	97.2	71.0
– Mainland China property development	**129**	**0.9**	(13)	(0.2)	n/m
	11,226	**77.3**	6,478	97.0	73.3
Total EBIT	**14,523**	**100.0**	6,674	100.0	117.6
Loss from fair value measurement of investment properties	**(1,616)**		(9,190)		82.4
Interest and finance charges	**(967)**		(1,004)		3.7
Profit/(loss) before taxation	**11,940**		(3,520)		n/m
Income tax	**(2,261)**		(1,301)		(73.8)
Profit/(loss) for the year	**9,679**		(4,821)		n/m
Non-controlling interests	**(127)**		12		n/m
Profit/(loss) for the year attributable to shareholders of the Company	**9,552**		(4,809)		n/m
Profit/(loss) for the year attributable to shareholders of the Company arising from:					
Recurrent businesses	**1,808**		(1,126)		n/m
Property development businesses	**9,343**		5,507		69.7
Underlying businesses	**11,151**		4,381		154.5
Fair value measurement of investment properties	**(1,599)**		(9,190)		82.6
Total profit/(loss) for the year attributable to shareholders of the Company	**9,552**		(4,809)		n/m

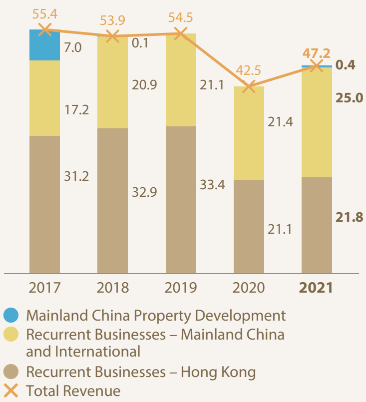
Notes

1 EBITDA represents operating profit/(loss) before fair value measurement of investment properties, depreciation, amortisation, variable annual payment, share of profit of associates and joint ventures, interest, finance charges and taxation.

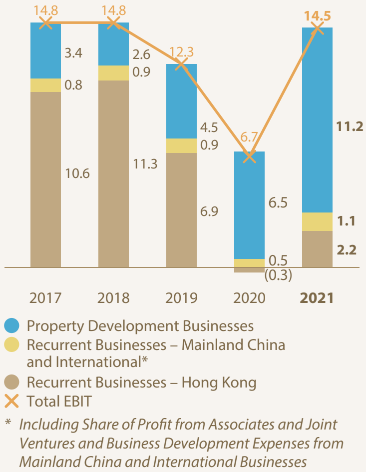
2 EBIT represents profit/(loss) before fair value measurement of investment properties, interest, finance charges and taxation and after variable annual payment.

n/m: not meaningful

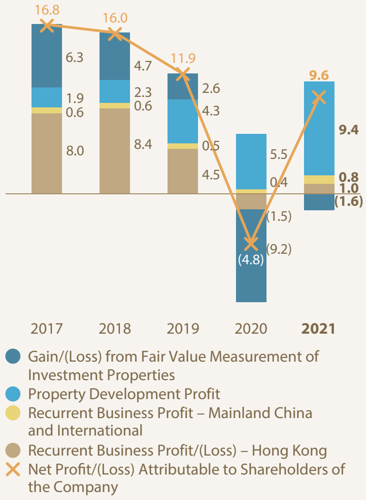
Total Revenue
(HK$ billion)



Total EBIT
(HK$ billion)



Net Profit/(Loss) Attributable to Shareholders of the Company
(HK$ billion)



	2021	2020	Favourable/ (Unfavourable) Change %
Financial ratios			
EBITDA margin(3) *(in %)*	**17.3**	12.2	5.1% pts.
EBITDA margin(3) (excluding Mainland China and international subsidiaries$^{\delta}$) *(in %)*	**32.7**	22.1	10.6% pts.
EBIT margin(4) *(in %)*	**5.2**	(1.0)	n/m
EBIT margin(4) (excluding Mainland China and international subsidiaries$^{\varphi}$) *(in %)*	**7.8**	(3.2)	n/m
Net debt-to-equity ratio(5) *(in %)*	**18.1**	22.5	4.4% pts.
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**6.3**	2.4	3.9% pts.
Interest cover(6) *(times)*	**14.4**	8.2	6.2 times
Share information			
Basic earnings/(loss) per share *(in HK$)*	**1.55**	(0.78)	n/m
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.80**	0.71	153.5
Ordinary dividend per share *(in HK$)*	**1.27**	1.23	3.3
Dividend payout ratio (based on underlying business profit) *(in %)*	**71**	173	(102)% pts.
Share price at 31 December *(in HK$)*	**41.85**	43.35	(3.5)
Market capitalisation at 31 December *(in HK$ million)*	**259,196**	267,943	(3.3)
Hong Kong Transport Operations			
Total passenger boardings *(million)*			
Domestic Service	**1,421.7**	1,145.0	24.2
Cross-boundary Service	**0.5**	7.6	(93.6)
High Speed Rail	**-**	1.0	n/m
Airport Express	**2.2**	3.1	(30.0)
Light Rail and Bus	**191.9**	154.0	24.6
Average number of passengers *(thousand)*			
Domestic Service *(weekday)*	**4,188.8**	3,406.0	23.0
Cross-boundary Service *(daily)*	**1.3**	20.9	(93.6)
High Speed Rail *(daily)*	**–**	35.6^	n/m
Airport Express *(daily)*	**5.9**	8.4	(29.8)
Light Rail and Bus *(weekday)*	**548.2**	438.0	25.2
Average fare *(in HK$)*			
Domestic Service	**7.64**	7.82	(2.3)
Cross-boundary Service	**9.85**	27.23	(63.8)
High Speed Rail	**–**	86.44	n/m
Airport Express	**41.27**	45.52	(9.3)
Light Rail and Bus	**3.04**	3.12	(2.6)
Proportion of franchised public transport boardings *(in %)*	**47.3**	45.3	2.0% pts.

Notes

3 *EBITDA margin represents total EBITDA (excluding Hong Kong property development profit from share of surplus and interest in unsold properties) as a percentage of total revenue.*

4 *EBIT margin represents total EBIT (excluding Hong Kong property development profit from share of surplus and interest in unsold properties, and share of profit of associates and joint ventures) as a percentage of total revenue.*

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

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

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

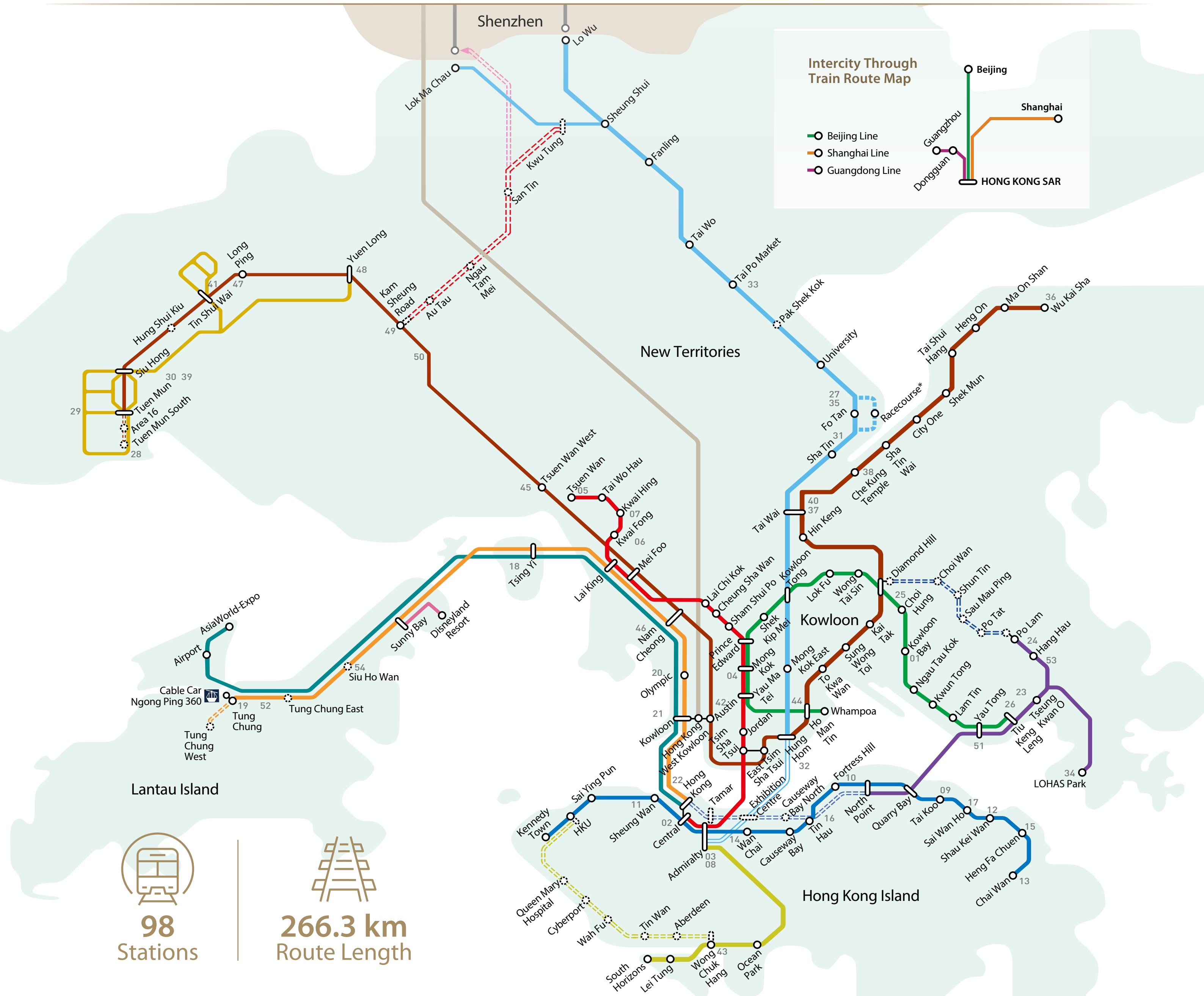
φ *Excluding the relevant revenue, expenses, depreciation and amortisation of Mainland China and international subsidiaries of HK$25,398 million, HK$24,379 million and HK$268 million (2020: HK$21,428 million, HK$20,908 million and HK$272 million) respectively.*

^ *Average of 1 January 2020 to 29 January 2020.*

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

OUR NETWORK

HONG KONG OPERATING NETWORK WITH FUTURE EXTENSIONS



98 Stations

266.3 km Route Length

LEGEND

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

EXISTING NETWORK

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

PROJECT IN PROGRESS

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

POTENTIAL FUTURE EXTENSIONS

- Tung Chung Line Extension
- Tuen Mun South Extension
- Northern Link and Kwu Tung Station
- East Kowloon Line
- South Island Line (West)
- North Island Line
- Hung Shui Kiu Station
- Pak Shek Kok Station
- Siu Ho Wan Station

PROPERTIES OWNED / DEVELOPED / MANAGED BY THE CORPORATION

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

PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

34 LOHAS Park Packages
40 Tai Wai Station Packages
41 Tin Wing Stop
43 THE SOUTHSIDE Packages
44 Ho Man Tin Station Packages
51 Yau Tong Ventilation Building
52 Tung Chung Traction Substation
53 Pak Shing Kok Ventilation Building
54 Siu Ho Wan Depot

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

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

MAINLAND CHINA AND INTERNATIONAL BUSINESSES

MAINLAND CHINA AND MACAO

Beijing
Metro Line 4
Metro Line 4 – Daxing Line
Metro Line 14
Metro Line 16
Metro Line 17
Ginza Mall

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

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

Tianjin
Shopping Mall (under construction)

Macao
Light Rapid Transit Taipa Line

EUROPE

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

Sweden
Stockholm Metro (Stockholms tunnelbana)
MTRX
Stockholm commuter rail (Stockholms pendeltåg)
Mälartåg

AUSTRALIA

Melbourne
Metropolitan Rail Service

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

CHAIRMAN'S LETTER

Composite photograph at To Kwa Wan Station

Dear Shareholders and other Stakeholders,

As I get close to the completion of my third year at the Board, I have been reflecting on the many profound changes that have taken place at MTR Corporation and around the world.

When I arrived, one of our most important tasks was to deepen MTR's commitments to robust corporate governance, environmental stewardship and social responsibility in order to strengthen the Company's operations and relationships with the community. I am glad to report that good progress has been made thus far. A clear example is MTR's response to the upheavals of the COVID-19 pandemic, which may continue well into 2022, during which we have acted responsively to help citizens and businesses manage the unprecedented challenges they face. At the same time, we have continued with our work to ensure that MTR evolves as an innovative, forward-thinking organisation providing reliable, affordable, environmentally friendly mass transit services, no matter the circumstances.

Despite on-going business disruptions and uncertain operational environments, especially with the prevailing Omicron wave of infections, we can still look back on all these and a number of other accomplishments in 2021 with satisfaction. I continue to be inspired by my colleagues' steadfast dedication to achieving excellence in all facets of our operations and keeping cities around the world moving, be it in favourable or difficult times.

CORPORATE STRATEGY

In 2020, we launched our Corporate Strategy, "Transforming the Future", to chart the way towards mutually beneficial, sustainable growth for the Company and the communities it serves. We have since taken great strides in making this strategy an integral part of our corporate structure, culture and business operations.

Our Corporate Strategy sets out how we are integrating robust environmental, social and governance ("ESG") principles backed by a steadfast commitment to our three pillars: our core Hong Kong Businesses, our Mainland China and International Businesses, and New Growth Engine in areas such as emerging railway technology, Mobility-as-a-Service applications and more. Over the past year, we have been diligently implementing this strategy to help achieve organisation-wide transformation, enhance the Company's ESG capabilities and strengthen our ability to respond effectively to issues. In the coming months and years, we will be focusing intently on accelerating digitalisation and exploring innovations that can enhance our core businesses; developing our New Growth Engine to power MTR well into the future; and further incorporating ESG into our business strategies and decisions.

BUSINESS PERFORMANCE AND GROWTH

I am proud to report that MTR accomplished a number of notable achievements during the year under review. The full Tuen Ma Line commenced service in June 2021, providing a 56-km railway to link communities across the city. We continue to advance the construction of the Hung Hom to Admiralty section of the Shatin to Central Link; the opening of this East Rail Line cross-harbour extension is now targeted for June/July 2022. We are also progressing with the planning and design of several new railway projects under Government's Railway Development Strategy 2014, works that will greatly enhance Hong Kong's rail connectivity. The delivery of these new projects is still subject to our entering into project agreements with Government.

In our property business, we awarded two development packages that should add over a thousand residential units to the local market, underscoring our support of Government's housing objectives. Our Mainland China and International Businesses also scored notable results in 2021. Services for the full Beijing Metro Line 14 and the initial phase of Beijing Metro Line 17 commenced towards the end of the year. We also took over Mälartåg regional traffic operations in Sweden in December 2021. Meanwhile, we continued to seek further growth opportunities in Mainland China and overseas that can expand our business portfolio and promote the MTR brand outside Hong Kong.

We welcomed the news of the Northern Metropolis Development Strategy that was announced by the Chief Executive in her annual Policy Address in October 2021. This initiative will be instrumental to Hong Kong's future urban development and its economic integration with the Greater Bay Area. We have pledged to support Government and contribute our expertise in railway construction and operations where needed to assist in the city's long-term growth.

With all that we were able to accomplish in 2021, and the numerous potential opportunities in the pipeline, there is a promising outlook for MTR and the communities it serves.

FINANCIAL PERFORMANCE

Domestic patronage and retail traffic improved in 2021 because of increased containment of COVID-19, higher vaccination levels and the relaxation of certain anti-pandemic measures, leading to improved overall results compared to 2020. However, boundary closures and a number of anti-pandemic measures remained in place, which continued to adversely impact financial performance in areas such as fare revenue, Duty Free Shops and rental reversions.

Profit from our recurrent businesses was HK$1,808 million. Together with the profit from our property development businesses, which increased by 69.7% to HK$9,343 million, profit from our underlying business was HK$11,151 million, or 154.5% higher than that of 2020. Including the loss arising from fair value measurement of investment properties, net profit attributable to shareholders of the Company in 2021 was HK$9,552 million, equating to earnings per share of HK$1.55. The 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 will bring the full-year dividend to HK$1.27 per share (2020: HK$1.23 per share).

We are pleased that Capital Finance International named MTR the winner of its "Best Public Service Financial Management Team Hong Kong 2021" award. The Company was recognised for its ability to deliver consistent dividends despite the pandemic through proactive financial management and a diversified business model, and for investing billions of dollars in new projects to drive socioeconomic development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As one of the world's top providers of environmentally friendly mass transit, we feel we have a duty to lead by example in areas that can make lasting positive impacts on society. Our Corporate Strategy sets out three primary social and environmental objectives for the betterment of the Company and the communities where it operates – reducing Greenhouse Gas Emissions, promoting Social Inclusion, and fostering Advancement & Opportunities – backed by clear commitments for each objective that give focus to our efforts and help us achieve meaningful results. Our steadfast adherence to world-class standards of corporate governance underpins these efforts, driving high levels of accountability, transparency and responsibility for the benefit of our shareholders and stakeholders.

Greenhouse Gas Emissions Reduction

MTR is committed to managing its environmental footprint and achieving carbon neutrality, and the Company continued to make good progress in these regards. In 2021, HK$4.8 billion in green finance was arranged under our Sustainable Finance Framework to support our own sustainable development by funding projects that can conserve energy, protect the environment, and enhance and expand low-carbon railway services. We were also presented with the "Outstanding Award for Green and Sustainable Bond Issuer (Transportation Industry) – Largest Single Green Bond" in the Hong Kong Green and Sustainable Finance Awards 2021 organised by the Hong Kong Quality Assurance Agency. Additionally, we have installed new solar photovoltaic systems at Hin Keng Station as a trial project to further promote Greenhouse Gas reduction.

The Company is keenly aware of the threat of climate change and the importance of reducing its carbon output. Recently, we completed a comprehensive carbon reduction study that will help us set science-based reduction targets for 2030 with an aim at achieving carbon neutrality by 2050. We aim to meet these targets via several initiatives, such as investing in the latest green technologies, adopting innovations that enhance work efficiency, and partnering with key stakeholders, particularly Hong Kong's electricity suppliers.

We have also been active in waste reduction initiatives. In 2021, we participated in the Environmental Protection Department's Reverse Vending Machine ("RVM") pilot scheme, which incentivises people to collect used plastic beverage containers for recycling through instant rebates. RVMs have been installed at Telford Plaza, Paradise Mall, Admiralty Centre, Maritime Square and The LOHAS.

Social Inclusion

Art is an integral part of MTR journeys. The range of artworks on display at our stations enliven the passenger experience and help popularise art in the community. Last year, we launched a new initiative to make "Art in MTR" inclusive for all, through a partnership with the Arts with the Disabled Association Hong Kong to showcase photos taken at Hong Kong West Kowloon Station by visually impaired photographers. The photos were displayed in Central Station. Arts accessibility services such as audio descriptions and braille information were also provided at the exhibition. We also partnered with the Hong Kong Ballet to present "The Ballet Encounters @ MTR", a video series that combined dance and a station art setting to enable members of the community to appreciate multiple art forms at a glance. In addition, we hosted art displays at our stations under the "Art in MTR" programme and showed works from the Hong Kong Museum of Art as part of the "Art for Everyone @ HKMoA" campaign.

We are very proud of our on-going efforts in social outreach. Every year, MTR volunteers dedicate their time and commitment to serve our communities under the Company's "More Time Reaching Community" Scheme. In 2021, these efforts ramped up with 95 volunteer projects involving 1,730 participating volunteer headcount. In September, The Community Chest recognised MTR as one of its top 10 Donors of the Year for raising more than HK$2 million.

To help enhance staff awareness of the special needs of different groups within our community, we collaborated with community partners to organise online talks and follow-up volunteering activities in order to foster an inclusive culture within the Company.

MTR also remains firmly committed to providing equal employment opportunities. In May 2021, the Company received Equal Opportunity Employer Awards in categories including "Gender Equality", "Equality for Diverse Abilities" and "Family Status Equality" from the Equal Opportunities Commission.

Every day, we strive to connect communities throughout Hong Kong and around the world with affordable mass transit services that are accessible to everyone. In 2021, we offered discounts to passengers as part of a package of economic relief measures in response to COVID-19 outbreak. We also offered free Airport Express tickets for healthcare workers travelling to and from the community treatment facility at AsiaWorld-Expo via AsiaWorld-Expo Station.

In 2021, a year of unprecedented success for local sports on the world stage, we also honoured the Hong Kong athletes who competed at the Tokyo 2020 Olympic and Paralympic Games with free rides and offered free tickets to the public to celebrate our athletes' success.

Advancement and Opportunities

In 2021, we welcomed a number of university graduates into our various graduate development programmes to build our talent pipeline, and we continued our apprenticeship scheme to offer career opportunities for youth and develop young talents in the railway industry.

We also introduced a new Management Potential Development Programme that includes a robust talent assessment along with personalised development plans to groom high potential supervisors.

While we continue to invest in new railway projects and enhance our railway assets to serve our communities and support the development of Hong Kong, we also aspire to contribute to social mobility and advancement by creating job opportunities for Hong Kong people, as well as providing growth opportunities for our suppliers, business partners and staff.

To support our staff to ride out the difficulties amidst the pandemic challenges, we promptly took steps to implement protective and caring measures for our staff over the past two years. These included providing them with protective equipment, piloting a work-from-home arrangement for our office staff, launching an emotional wellness learning portal, and arranging COVID-19 vaccination outreach services at Kowloon Bay Depot for our staff and their dependants in collaboration with Government. The Company was the first public transport operator to participate in outreach COVID-19 vaccination. With various encouragement measures, over 90% of the specified groups of staff with interactions with external parties got vaccinated by end of 2021, demonstrating our commitment in safeguarding the health of staff, their families and the public.

We continue to offer rental concessions for shopping mall and station shop tenants to help them cope with the economic impact of the pandemic. In addition, we are pursuing partnerships with various start-ups to explore mutually beneficial digitalisation and innovation opportunities.

Governance

In 2021, the Board initiated an evaluation of the Board by external consultant with a view to enhancing its effectiveness and ensuring that it remains fit for purpose to support the implementation of the Company's Corporate Strategy. Such reviews are undertaken periodically to ensure that MTR continues to meet the high standards of governance that are expected of a major, publicly listed corporation.

Following this evaluation, a number of actions have been undertaken. The most important one is a revamp of the Board's Committee structure with effect from 1 February 2022, which has resulted in the establishment of a new Finance & Investment Committee and a Technology Advisory Panel, as well as changes to other Board Committees. Other actions have included a review and update of MTR's delegations of authority and an enhanced focus on Board succession planning.

In 2021, we also made good progress in strengthening our "second line of defence" through the establishment of a new assurance management function. This function will provide assurance over MTR's key risk areas to ensure that the risks are properly understood by the businesses and that effective controls are put in place.

ACKNOWLEDGEMENTS AND APPRECIATION

I want to commend my fellow members of the Board for their leadership over the past year as we have striven to help get our communities back on track. As always, it has been a pleasure working together towards our common goal of building a better MTR Corporation for all.

I would like to thank Mr James Kwan Yuk-choi and Mrs Lucia Li Li Ka-lai, who retired as Independent Non-executive Directors ("INEDs") of the Board on 26 May 2021, for their exceptional efforts. I am also pleased to welcome once more Mr Hui Siu-wai and Mr Adrian Wong Koon-man, who joined MTR as INEDs effective 26 May 2021. In addition, I welcome Mr Ricky Lau Chun-kit, who has succeeded Mr Lam Sai-hung in the post of the Permanent Secretary for Development (Works) and joined MTR as a Non-executive Director with effect from 8 October 2021.

I am pleased to see that the contract of our Chief Executive Officer, Dr Jacob Kam Chak-pui, has been renewed for a period of three years. I am also honoured to have been reappointed as Chairman for another two-and-a-half-year term. I very much look forward to our continued partnership as we seek to fulfil the promise of a brighter future for MTR Corporation and Hong Kong despite the many challenges ahead of us, including the latest wave of COVID-19 infections.

Last but not least, I would like to acknowledge the hard work and dedication of the Executive Directors and our over 50,000 employees worldwide, every one of whom contributes to making MTR Corporation a global leader in safe, reliable and environmentally friendly rail transit for all.

Dr Rex Auyeung Pak-kuen
Chairman
Hong Kong, 10 March 2022

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

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

Mainland China. Anti-pandemic measures also continued to affect the number of air passengers and thus Airport Express patronage.

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

Market Share

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

Fare Adjustment, Promotions and Concessions

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

Service Performance

Demonstrating its commitment to excellence and service reliability, MTR once again achieved the world class 99.9% passenger journeys on-time and train service delivery for its heavy rail network in 2021. Passenger journeys on-time are those that are completed within five minutes of their scheduled journey times, while train service delivery measures actual train trips against those scheduled to be run.

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

Boosting Passenger Convenience

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

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

Greater Comfort for Passengers

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

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

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

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

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

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

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

Smart Mobility for Better Customer Journeys

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

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

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

Smart Operations and Maintenance

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

Station Commercial Businesses

HK$ million	Year ended 31 December 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	2020	Favourable/(Unfavourable) Change HK$million	%
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*

Overview

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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

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

#: *Excluding effect of exchange rate change*

Net Cash Generated from 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

HONG KONG TRANSPORT SERVICES
TRANSPORT OPERATIONS

99.9% Passenger Journeys On-time	**1,616.3 million** Total Patronage	**4.75 million** Average Weekday Patronage

Composite photograph at Hung Hom Station

AIM

MTR's mission is to connect communities with safe, reliable, caring and environmentally friendly rail services. We also strive to generate returns from our transport operations that allow us to invest in the upgrading, expansion and innovation of our world-class rail network, thus ensuring that we can achieve sustainable growth for the Company and the markets where it operates while continuing to meet the always-evolving needs of our customers.

CHALLENGES

In 2021, we continued to deal with the impacts of COVID-19 on our operations. Key challenges were driving domestic patronage to boost fare revenue while emphasising health and safety for passengers and staff, and managing major asset works to enhance our network and the customer experience.

STRATEGIES

MTR continued to strive for high customer service and performance standards by ensuring the safety, comfort and reliability of its rail services and employing smart technology to enhance its transport operations. The Company also leveraged attractive marketing promotions and the opening of the full Tuen Ma Line to drive patronage, and it regularly engaged with the community and staff to promote rail safety. Renewing and upgrading the Company's railway assets to better serve the community remained a key area of focus.

OUTLOOK

We are sanguine about the future prospects of MTR's transport operations. Domestic patronage has recovered to almost pre-pandemic levels (before the onset of the fifth wave of infections). Cross-boundary travel will eventually return, re-establishing important business links between Hong Kong and Mainland China while providing a huge boost in Cross-boundary Service and High Speed Rail ("HSR") patronage. Also, international travel restrictions will gradually ease, bringing global tourism and commerce back to the city along with higher Airport Express patronage.

We are doing everything we can to prepare for the future. Our anti-pandemic measures – including cleaning and sanitising our trains and stations regularly with robots, carrying out public awareness campaigns, providing personal protection equipment for staff, promoting vaccination programmes and more – meet or exceed global standards, and we regularly review our efforts in these regards. In the meantime, we continue to achieve world-class safety and reliability performance in our rail operations.

Meanwhile, our Corporate Strategy is transforming the way we operate by structuring our business around an environmental, social and governance ("ESG") framework with three core objectives: Greenhouse Gas Emissions Reduction, Social Inclusion, and Advancement and Opportunities. For our Transport Operations, this means providing comfortable, convenient, low-carbon rail services that are accessible and affordable for all, fostering sustainable growth for MTR and the communities it serves, and continuing to employ the latest innovations to enhance the customer experience – all while continuing to adhere to world-class standards of corporate governance.

We are also excited about our "Go Smart Go Beyond" campaign, which articulates our efforts to build a more connected, inclusive, community-centric tomorrow through innovation, smart technologies, and environmentally friendly sustainability practices. Our shareholders and stakeholders can rest assured that as soon as full services are able to resume, MTR will be ready.

SAFETY

As a leading provider of world-class rail transport services, we make safety our number one priority. In 2021, we recorded 821 reportable events throughout our heavy rail and light rail networks, a 12% increase compared to the previous year; a figure that reflects 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. Further details about our safety performance can be found in the Ten-Year Statistics of this Annual Report.

Our Escalator Safety Task Force introduced several campaigns and initiatives designed to promote escalator safety awareness and prevent accidents. This included trialling new step-rises featuring safety messages; launching a "T Chai" safety campaign in publicity and video materials; introducing escalator safety promotional booths; hosting elderly centre visits; and organising joint Escalator Safety Walks with station landlords and line representatives.

The Platform Gap Incident Special Task Force carried out site visits in 2021 to identify areas where platform gap safety could be improved. We also installed flashing LED lights at the platforms of Admiralty and Kwun Tong stations during the year. In Light Rail, we installed 55 full-length platform gap fillers between November 2020 and October 2021, and the installation of 55 new fillers will commence in mid-2022.

Also during the year, we installed smart flashing bollards with flashing yellow strips at the pedestrian crossings of seven Light Rail locations as well as a smart junction at Tin Tsz Stop to enhance light rail safety. We also launched a smart tunnel system along the Tsuen Wan Line to enhance the safety of trackside works.

PATRONAGE AND REVENUE

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

In 2021, total patronage for all our rail and bus passenger services increased by 23.3% to 1,616.3 million passenger trips. This was primarily due to the easing of certain anti-pandemic measures which contributed to a rise in ridership for passenger services. Average weekday patronage increased by 22.4% to 4.75 million passenger trips.

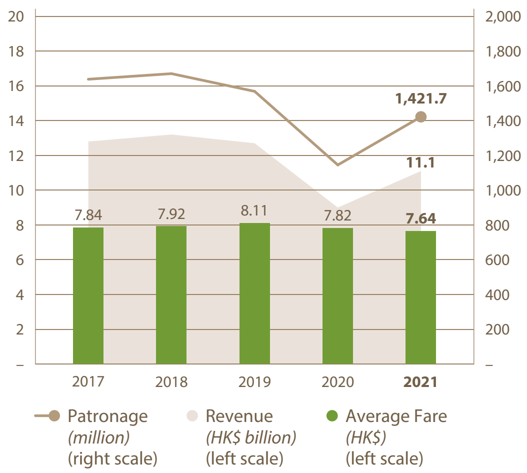
Domestic Service recorded a total patronage of 1,421.7 million in 2021, an increase of 24.2% compared to the previous year. Average weekday patronage of our Domestic Service saw a 23.0% increase to 4.2 million.

Boundary crossings between Hong Kong and Mainland China – including the crossings at Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations as well as the Intercity Through Train control point at Hung Hom Station – remained closed during the year, severely impacting the patronage of Cross-boundary Service, HSR and Intercity.

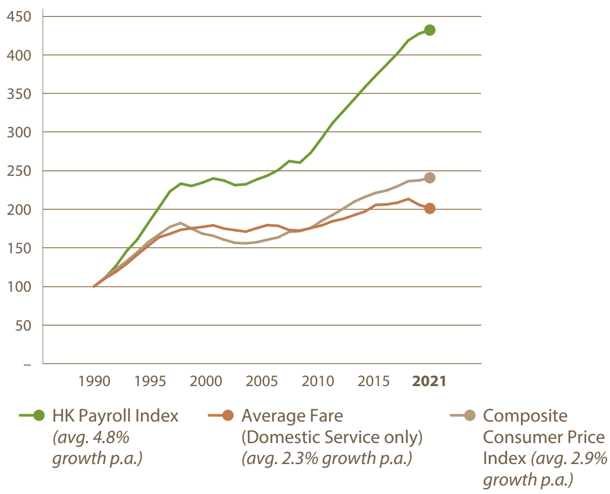
Airport Express recorded patronage of 2.2 million in 2021, a 30.0% decrease compared to 2020. This was mainly due to the continued impact on the number of air passengers by pandemic-related measures.

To promote the opening of the full Tuen Ma Line on 27 June 2021, MTR launched a series of marketing campaigns highlighting shorter journey times as well as the numerous leisure spots that can be accessed via the line. Coverage of the City Saver, Early Bird and Sheung Shui/Wu Kai Sha–East Tsim Sha Shui Monthly Pass Extra was extended to the line's two new stations. The Company also offered 100,000 free domestic single-journey tickets for MTR Mobile registered users on a first-come-first-serve basis. During the year, we continued to promote these and other attractive offers through MTR Mobile. We also regularly reviewed passenger flows to optimise our train schedules for customer convenience.

Domestic Service – Patronage and Average Fare



Fare Trend



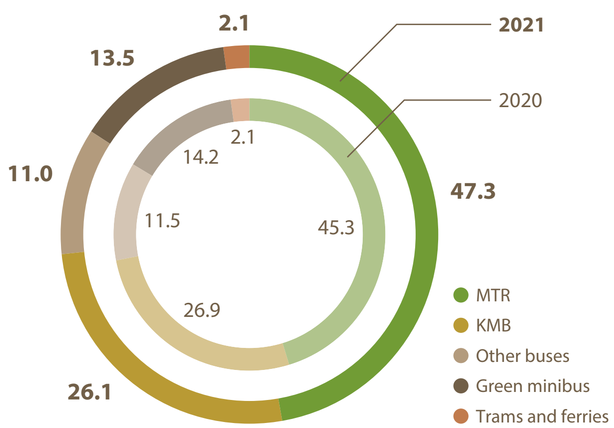
MARKET SHARE

Our overall share of the franchised public transport market in Hong Kong in 2021 improved to 47.3% compared to 45.3% in 2020. This was due to 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% against the 66.1% recorded in 2020.

Our Cross-boundary and HSR service registered 0% in market share of cross-boundary business due to the continued closures of boundary crossings in 2021. Our market share to and from the airport increased to 21.6% from 16.3% in 2020.

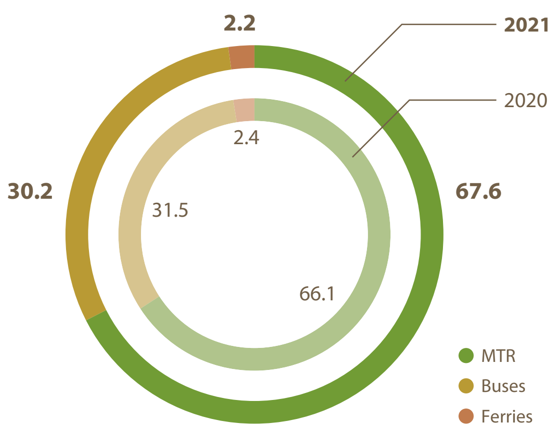
Market Shares of Major Transport Operators in Hong Kong

(Percentage)



Market Shares of Major Transport Operators Crossing the Harbour

(Percentage)



FARE ADJUSTMENTS, PROMOTIONS AND CONCESSIONS

To help the community ride out the difficulties of the pandemic, we offered a 20% rebate to customers till March 2021 in conjunction with Government. On 29 March 2021, the Company announced there would be a 1.7% fare reduction under the Fare Adjustment Mechanism ("FAM") with effect from 27 June 2021 based on the year-on-year change in the Nominal Wage Index (Transportation Section). The Company also announced additional measures to help alleviate the economic effects of the pandemic, including savings on actual fare expenses totalling around 5% for Octopus and QR code ticket users from 1 April 2021 till 1 January 2022. Together with other fare reductions and promotions, the total value of these measures was estimated at more than HK$900 million.

On 27 June 2021, the overall adjustment rate of MTR fares for 2021/2022 according to the FAM was revised to -1.85% based on the revised year-on-year percentage change in the Composite Consumer Price Index. At the same time, we introduced an additional rebate of 3.8%, implying that customers could continue to enjoy a saving of approximately 5% on actual fares till 1 January 2022. The Company later announced that the rebate of 3.8% had been further extended to late June 2022.

The Company offered a HK$100 discount on "MTR City Saver" and "Monthly Pass Extra" until June 2021 as part of its COVID-19 economic relief package. On 27 June 2021, the Company announced it would continue to offer a HK$50 flat reduction on Monthly Pass Extra from July to December 2021 and on MTR City Saver from 1 July 2021 to 1 January 2022. The 35%-off "Early Bird Discount Promotion" was extended until 31 May 2022.

As part of its objective to promote Social Inclusion under its ESG framework, the Corporation offered over HK$2.2 billion in on-going fare concessions to the elderly, children, eligible students and persons with disabilities in 2021.

SERVICE PERFORMANCE

Meeting its objective to deliver world-class reliability, MTR attained 99.9% train service delivery and passenger journeys on-time in 2021 despite the challenges of operating in a pandemic environment, exceeding the targets set in the Company's Operating Agreement and its own even more demanding Customer Service Pledges. Train service delivery is a measure of the actual train trips run against those scheduled to be run. Passenger journeys on-time is a measure of all passenger journeys completed within five minutes of their scheduled journey times.

In 2021, more than 4,600 train trips per day (and around 760,000 car-km per day) were made on our heavy rail network, and more than 2,600 trips per day (and around 28,000 car-km per day) were made on our light rail network. There were 16 delays on the heavy rail network and no delays on the light rail network; delays are defined as those lasting 31 minutes or more and attributable to factors within the Company's control. The light rail network continued its record dating back to 2019 of no delays lasting 31 minutes or more and attributable to factors within the Company's control. 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.

MTR carries out regular surveys and research to assess customer satisfaction levels regarding its services and fares. The results of these are published in the Company's Service Quality Index and Fare Index, respectively.

Service Quality Index	2021	2020
Domestic and Cross-boundary services	**66^**	64^
Airport Express	**N/A***	N/A*
Light Rail	**63**	62
Bus	**74**	75
HSR	**N/A***	N/A*

Fare Index	2021	2020
Domestic and Cross-boundary services	**62^**	59^
Airport Express	**N/A***	N/A*
Light Rail	**61**	61
Bus	**72**	74
HSR	**N/A***	N/A*

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

* *The Voice of Customer surveys for Airport Express and HSR have been suspended since 2020 due to the COVID-19 pandemic.*

MTR belongs to The Community of Metros ("COMET"), which establishes performance benchmarks from urban metro systems around the world with the aim of improving industry best practices. The 2020 COMET benchmarking exercise assessed data from 42 metro systems and results can be found in the "Performance Metrics" section of our sustainability website.

ENHANCING THE CUSTOMER EXPERIENCE

Following the introduction of its Corporate Strategy in 2020, MTR has been more focused than ever on delivering a world-class customer experience in accordance with strong environmental, social and governance principles. In 2021, MTR launched its "Go Smart Go Beyond" campaign, which shares its vision for a future where innovation and sustainability combine to lift rail transport to even greater heights of comfort, inclusivity and environmental friendliness. The Company also remains firmly committed to enhancing its local network. In 2021, MTR invested a total of more than HK$10.8 billion to maintain, upgrade or replace the Company's Hong Kong railway assets.

Boosting Passenger Convenience

On 27 June 2021, we announced the opening of the longest railway line in Hong Kong. Approximately 56 km long and covering 27 stations, the full Tuen Ma Line comprises six interchange stations that link passengers to the East Rail, Kwun Tong, Tung Chung and Tsuen Wan lines for greater connectivity than ever. With new stations at Sung Wong Toi and To Kwa Wan, it also extends MTR's railway network to Kowloon City. To build awareness and encourage ridership, the Company launched a series of marketing campaigns highlighting the shorter journey times and access to leisure attractions made possible by

Operations Performance in 2021

Service Performance Item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line and South Island Line [1]	98.5%	99.5%	**99.9%**
– Tung Chung Line, Disneyland Resort Line and Airport Express [1]	98.5%	99.5%	**99.9%**
– East Rail Line [2]	98.5%	99.5%	**99.9%**
– West Rail Line [3]	98.5%	99.5%	**99.9%**
– Tuen Ma Line [4]	N/A	N/A	**N/A**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line [2]	98.5%	99.0%	**99.9%**
– West Rail Line [3]	98.5%	99.0%	**99.9%**
– Tuen Ma Line [4]	N/A	N/A	**N/A**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line and South Island Line [5]	98.0%	99.0%	**99.8%**
– Tung Chung Line, Disneyland Resort Line and Airport Express [6]	98.0%	99.0%	**99.9%**
– East Rail Line [2]	98.0%	99.0%	**99.9%**
– West Rail Line [3]	98.0%	99.0%	**99.9%**
– Tuen Ma Line [4]	N/A	N/A	**N/A**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	800,000	**4,509,944**
– East Rail Line, Tuen Ma Line Phase 1, West Rail Line and Tuen Ma Line [7]	N/A	800,000	**5,432,499**
Ticket reliability: smart ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line, Tuen Ma Line Phase 1, West Rail Line and Tuen Ma Line [7]	N/A	10,500	**34,511**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line [2]	98.0%	99.0%	**99.9%**
– West Rail Line [3]	98.0%	99.0%	**99.9%**
– Tuen Ma Line	98.0%	99.0%	**99.9%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line [2]	97.0%	99.0%	**99.9%**
– West Rail Line [3]	97.0%	99.0%	**99.8%**
– Tuen Ma Line	97.0%	99.0%	**99.8%**
– Light Rail [8]	N/A	N/A	**N/A**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line [2]	97.0%	99.0%	**99.9%**
– West Rail Line [3]	97.0%	99.0%	**99.9%**
– Tuen Ma Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability [9]	N/A	N/A	**N/A**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line [2]	98.0%	99.0%	**99.9%**
– West Rail Line [3]	98.0%	99.0%	**99.9%**
– Tuen Ma Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line [2]	98.5%	99.5%	**99.9%**
– West Rail Line [3]	98.5%	99.5%	**99.9%**
– Tuen Ma Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26ºC	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27ºC for platforms and 29ºC for station concourses, except on very hot days	N/A	93.0%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	99.0%	**99.9%**
– Train exterior: washed every two days (on average)	N/A	99.0%	**100%**
Northwest transit service area bus service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**100%**
Passenger enquiry response time within six working days	N/A	99.0%	**100%**

Operations Performance in 2021 *(continued)*

Notes:

1. *The figure reflects the actual performance for the period between 27 June and 31 December 2021. The performance of Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, South Island Line, Tung Chung Line, Disneyland Resort Line and Airport Express for the period between 1 January and 26 June 2021 was 99.9%.*
2. *The figure includes the performance of Tuen Ma Line Phase 1 for the period between 1 January and 26 June 2021.*
3. *The figure reflects the actual performance for the period between 1 January and 26 June 2021.*
4. *The performance requirement, customer service pledge target and actual performance result will be available upon completion of two-year revenue operations.*
5. *The figure includes the performance of Tung Chung Line and Disneyland Resort Line for the period between 1 January and 26 June 2021.*
6. *The figure reflects the actual performance for the period between 27 June and 31 December 2021. The performance of Airport Express for the period between 1 January and 26 June 2021 was 99.9%.*
7. *The figure includes the performance of Tuen Ma Line Phase 1 and West Rail Line for the period between 1 January and 26 June 2021, as well as the performance of Tuen Ma Line for the period between 27 June and 31 December 2021.*
8. *Repair works on damaged Light Rail Ticket Machines are underway. Performance data will be available after completion of repair and testing works.*
9. *Light Rail Platform Octopus Processor replacement works and testing are underway. Performance data will be available after completion of installation, testing and trial operations of the new processors.*

the Tuen Ma Line. We also gave MTR Mobile registered users the chance to experience the line, offering 100,000 free single-journey tickets on a first-come-first-serve basis.

In 2021, COVID-19 prevention measures such as work-from-home arrangements, social distancing measures and travel restrictions continued to affect the frequency of our train services. To meet passenger demand and deliver the highest level of service convenience possible during this difficult period, we monitored the situation on a regular basis and adjusted our non-peak train service accordingly.

Great Comfort for Passengers

New Trains

MTR has ordered 93 new eight-car heavy rail trains to upgrade the fleet and replace older trains for an enhanced customer experience. As at 31 December 2021, 13 new eight-car heavy rail trains had been delivered to Hong Kong. The new fleet will be put into passenger service in stages over the next few years starting 2022.

New Light Rail Vehicles

The Company has ordered 40 new light rail vehicles ("LRVs") to replace older vehicles and expand its fleet. As at 31 December 2021, 20 new LRVs had been delivered to Hong Kong, of which 12 had been put into passenger service.

Replacement of Air Conditioning Systems

Our programme to replace approximately half of our chillers with newer, more energy-efficient models continued throughout our stations and depots. As at 31 December 2021, 121 chillers in 26 stations and four depots were replaced with 105 newer, more efficient units. All replacement work for 154 chillers is expected to be completed by 2023, enabling passengers to enjoy even more comfortable train and station environments and contributing to greener operations with savings of 15,000 tonnes of carbon emissions per year.

Upgrading of Signalling System

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.

Enhancing Station Facilities

Making our trains and stations comfortable and accessible is an important part of our efforts to enhance the customer experience and promote social inclusivity. Anticipating high traffic along the newly opened full Tuen Ma Line, MTR has introduced passenger information display systems at Tuen Ma Line station platforms featuring real-time passenger loading information that allows passengers to locate less-crowded train cars. In 2021, we also extended waiting time information displays to six major interchange stations, including Prince Edward, Mong Kok, North Point, Yau Tong, Kowloon Tong and Tai Wai stations. By providing such information to passengers, we can help improve the comfort and convenience of their journeys while reducing crowding and long queues at platforms.

By the second quarter of 2022, we expect to complete the first batch of toilet installation works. Toilets and baby care rooms are available at the new To Kwa Wan and Sung Wong Toi stations along the Tuen Ma Line; it is our intention to have such facilities available at all stations of future new lines. The new public toilets and baby care room at Tsim Sha Tsui Station are slated to open in the second quarter of 2022. We have also begun trialling smart toilet facilities at Central Station.

In 2021, we refurbished 30 escalators throughout our heavy rail network to ensure safe operations and a comfortable riding experience for passengers. We also installed two new escalators at Tung Chung Station. The refurbishment of five more escalators is scheduled to be completed in the first quarter of 2022. Also during the year, we equipped 125 lifts in 58 stations with lift button sensors to provide a hygienic option for passengers when accessing stations.

In line with our efforts to reduce plastic waste and protect the environment, we continued our free drinking water dispenser installation programme in 2021 by focusing on interchange stations and those close to gathering points for hikers. 12 dispensers were put into service, and six more are scheduled to be added in 2022.

To promote age-friendly travel, enhance comfort and facilitate way-finding, we installed more platform seats at 17 heavy rail stations and added station names at all Customer Service Centres throughout the network in 2021. During the year, we also repainted platforms and replaced platform seats at 17 light rail stops. Works for the remaining 37 light rail stops are expected to be completed by 2025.

MTR supported the Hong Kong Fire Services Department's initiative to promote the use of automated external defibrillators to save lives by providing additional units at public areas of stations.

Enhancing Passenger Journeys Through Technology

Smart Mobility

Innovation is key to our delivery of world-class customer service and a core focus of our Corporate Strategy and "Go Smart Go Beyond" campaign. Earlier this year, we made a number of enhancements to our constantly evolving MTR Mobile app for greater passenger convenience. The introduction of QR code tickets enables passengers to pay fares via e-payment platforms by tapping entry and exit gates for contactless access. "Next Train" now includes estimated train arrival times for the full Tuen Ma Line, as well as the next two Light Rail trains. "Waiting Time Indicator" has been enhanced to cover six major interchange stations. "Book Taxi" lets customers hail taxis, while the new "Next Bus" function lets users see the estimated arrival times of public franchise buses and green minibuses in addition to MTR buses. Together, these new features allow customers to complete their trip planning and access information on a single platform.

The Online Lost Property Platform launched in June 2021 provides a round-the-clock, self-service digital interface for customers to report lost items and enquire about the latest handling status. In September 2021, we also launched the fully digitalised Student Travel Scheme that allows applicants to submit applications via MTR Mobile and activate their student status via Octopus instead of having to visit a Customer Service Centre in person.

Smart Operations and Maintenance

Technology plays a key role in helping MTR make regular enhancements to the Company's operations and maintenance for smoother, more reliable railway performance. Our award-winning Smart Train Planning artificial intelligence platform, which can optimise train deployment through big data analysis, will be extended to the Tuen Ma Line in 2022. Meanwhile, image recognition technology boosts our smart asset management efforts by allowing us to identify issues quickly and alert maintenance teams to prevent escalation of failure. We are continuing trials along the Tuen Ma Line for our Smart Train Roof and Pantograph Monitoring System, which uses such technology to identify potential anomalies on train pantographs and roofs.

MTR also continues to lead the way in the use of robotics and automation for more efficient operations. During the year, drone technology helped facilitate the inspection of high or hard-to-reach locations. We also continued to employ robots in a variety of areas; for example, making structural scans of tunnels for faster identification of defects, cleaning stations and depots, and performing customer service and safety awareness functions.

HONG KONG TRANSPORT SERVICES
STATION COMMERCIAL BUSINESSES

mtrshops

1,550	44,755	5G
Station Shops with 68,279m^2	Advertising Units	Data Access in 70 Stations

Composite photograph at Kowloon Station

AIM

We aim to enhance the customer experience and add value for our business partners by providing an array of quality retail, advertising and telecommunications services throughout our railway network.

CHALLENGES

- **Station Retail**

  COVID-19 and its wider economic effects continued to impact MTR's station retail business. Boundary station closures, downward market pressure on rentals and rental concessions provided to tenants resulted in rental income decrease during the year.

- **Advertising**

  Advertising revenue rebounded considerably in 2021 as retail spending showed signs of recovery. However, the outlook remains uncertain and is subject to changes in the pandemic situation (in particular, with the fifth wave of infections).

- **Telecommunications**

  Our telecommunications systems continued to face rising customer demand for enhanced network speed and coverage. Contract renewals remained under pressure due to uncertainties regarding the pandemic situation.

STRATEGIES

- **Station Retail**

  During the year, we offered flexible and/or shorter-term leases to help tenants through the pandemic and nurture tenant relationships. We also reviewed our station tenant mix to drive rental revenue and ensure that our portfolio meets the changing needs of our customers. This included introducing new brands into our station shops to enhance the appeal of our retail offerings.

- **Advertising**

  To satisfy advertiser needs, MTR continued to increase its digital media offerings. The Company also continued to design targeted sales packages, integrating them with MTR Mobile to provide online-to-offline ("O2O") solutions for advertisers and meet market demand.

- **Telecommunications**

  To address growing customer demand, the Company continued to develop a new commercial telecommunications network while working with telecom operators to launch 5G services.

OUTLOOK

While we anticipate a return of domestic foot traffic to our retail outlets, rental reversions are likely to keep facing downward economic pressure. We will continue to review our rental concessions for tenants by keeping a close eye on the development of the fifth wave of infections as well as the prevailing economic climate, striving to generate rental revenue while also ensuring that we help our partners through this difficult time. Meanwhile, our Duty Free businesses remain dependent on the resumption of cross-boundary travel and its future performance is expected to be impacted by contracts that were renewed in adverse market conditions.

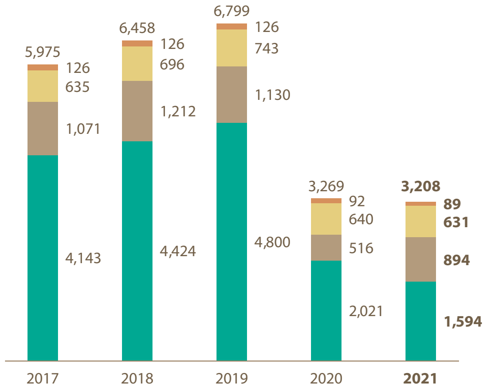
The opening of the full Tuen Ma Line has had a positive impact on our station commercial operations. Station retail traffic should continue to increase with the opening of more lines and stations, in turn driving revenue for the Company and its tenants.

In accordance with its Corporate Strategy, MTR's increased focus on New Growth Drivers such as digital and online marketing tools will continue to guide the Company's strategic direction as it strives to generate advertising revenue through mobile commerce and digital media packages.

Meanwhile, the on-going roll-out of a robust telecommunications infrastructure throughout our network, replete with high-speed 5G, is expected to contribute to both increased customer satisfaction as well as faster access to attractive offers and promotions from business partners.

Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



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 of which was partially mitigated by the increase in advertising revenue.

STATION RETAIL

In 2021, station retail rental revenue saw a 21.1% decrease to HK$1,594 million. This was mainly due to the fact that January 2020 was still a normal month before the COVID-19 outbreak. Despite the relaxing of anti-pandemic measures, increased station passenger flow and the roll-out of Government's Consumption Voucher Scheme ("CVS") that stimulated Domestic Service station retail sales, rentals continued to be affected by cross-boundary station closures, which have also profoundly impacted Duty Free business.

From January to February 2021, we continued to offer rental relief to small to medium tenants as well as some large corporations to help them face the business challenges posed by the pandemic. From March 2021, we began adjusting the scale of assistance on a case-by-case basis as passenger flow gradually began to recover. In 2021, rental reversion and average occupancy rates for our station kiosks were -17.0% and 98.0%, respectively. Rental reversions in respect of Duty Free Shops were adversely affected due to the challenging market conditions.

Throughout the year, we launched a series of promotional campaigns to leverage the large membership base of our "MTR Points" customer loyalty programme and stimulate spending in station shops. These included sales promotion programmes featuring the distribution of shopping coupons at Hong Kong and Central stations, and various campaigns held during the release of CVS to capitalise the growth. To provide more convenience to our customers, we launched e-cash vouchers for MTR Shops through MTR Mobile. Elsewhere, we continued our "New Shop poster" initiatives, where we leverage our station light box advertising network to promote new brands at MTR stations. This year also saw the introduction of "Kerry Express @ MTR Shops", an O2O new retail solution that enables customers to order products from quality partner brands of Kerry e-Commerce and pick them up in any "Kerry Express @ MTR Shops" outlet. 13 of these outlets have commenced service at MTR stations across Hong Kong since the brand launched in May 2021.

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%.

As at 31 December 2021, there were 1,550 station shops occupying 68,279 square metres of retail space, representing increases of 21 shops and 533 square metres of lettable space, respectively, when compared with 31 December 2020. The increases were mainly due to shop openings at Hung Hom Station and the newly opened stations along the Tuen Ma Line.

To help non-governmental organisations and social enterprises provide services for the community, we rent them certain station shops along the Tuen Ma Line at nominal rates. In 2021, a total of 12 station shops were leased on this basis.

ADVERTISING

Advertising revenue increased by 73.3% to HK$894 million in 2021 as the retail environment in Hong Kong began to stabilise and the CVS contributed to more consumer spending.

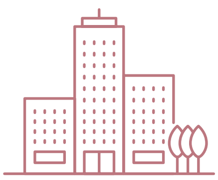
As at 31 December 2021, the number of advertising units in stations and trains had decreased to 44,755 when compared with 31 December 2020. This was mainly due to the reduction of in-train tube cards as the new nine-car trains have less in-train card space. A total of 86 additional large-size digital screens were added at 30 stations throughout our network. This year we continued the digital transformation of MTR's advertising media by launching new digital formats; developing advertising solutions featuring customised digital solutions with real-time dynamic content and O2O applications; upgrading and expanding our distribution network to include automatic scheduling; and leveraging data to enhance our audience-targeting capacity and better compete for online advertising budgets.

In 2021, the Company provided free advertising space to 76 non-profit organisations to help them promote their services.

TELECOMMUNICATIONS

In 2021, MTR's telecommunications revenue decreased by 1.4% to HK$631 million. In September, we completed our new commercial telecom system, which covers 31 stations across our network. To meet the expectations of our customers and business partners for faster connectivity, 5G services were launched at 70 stations in partnership with some telecom operators. In addition, a new business line, a data centre located at a partnership site at Tseung Kwan O, will be ready for service in the first quarter of 2022.

HONG KONG PROPERTY AND OTHER BUSINESSES



14
Shopping Malls in our Portfolio

Managing Over
114,000
Residential Units

Approximately
20,000
Residential Units and 2 Shopping Malls Under Development

Composite photograph at LOHAS Park

AIM

We strive to advance the growth of integrated, inclusive communities along our rail network by exploring property development, management and rental projects that create opportunities for residents and businesses while also maximising shareholder value.

CHALLENGES

- **Property Rental**

  Despite modest recovery in domestic retail traffic and spending in 2021 before the fifth wave of COVID-19 infections, mall rentals remained affected by the negative impact of the pandemic on tourism as well as the growing trend towards e-commerce. The Company continued to offer rental concessions on a case-by-case basis, further impacting revenue.

- **Property Management**

  Statutory changes in licensing, procurement and maintenance continued to impact the residential property management industry in Hong Kong.

- **Property Development**

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

STRATEGIES

- **Property Rental**

  To drive mall traffic and boost rental value, we collaborated with tenants on a variety of digital marketing campaigns, including online-to-offline ("O2O") initiatives designed to drive in-store fulfilment. Rental concessions and flexible lease arrangements were offered to small to medium enterprises to ease the effects of the pandemic and further develop tenant relationships. We also continued to review our trade mix to ensure customer appeal.

- **Property Management**

  We strove to ensure the health and safety of our residents, tenants and customers by implementing comprehensive anti-pandemic measures while maintaining world-class standards of property management. We also emphasised carbon reduction and other green initiatives to meet our sustainability objectives, and continually reviewed our operational efficiency to achieve cost control.

- **Property Development**

  To support transit-oriented development and satisfy the needs of buyers seeking quality units with convenient transportation links, we continued to explore new property development opportunities along our existing and future railway lines. As always, we strove to deliver high-quality property projects on time and within budget.

OUTLOOK

Domestic mall traffic and spending gradually increased in 2021 due to the relaxation of certain anti-pandemic guidelines, the return of workers and students, and the introduction of Government's Consumption Voucher Scheme in the second half of the year. However, on-going boundary closures and travel restrictions are expected to continue impacting mall rentals by reducing tourist visitation of retail outlets. It is yet unclear how long these measures will remain in force.

In line with our Corporate Strategy directive to drive business through innovative new growth engine, we will continue to employ targeted digital marketing, launch O2O campaigns in partnership with tenants, and leverage our growing MTR Points loyalty programme. Such initiatives are designed to help our mall tenants counter the effects of the pandemic while boosting the rental value of our commercial properties via increased mall traffic. As always, we will optimise our trade mix to ensure that we continue offering a compelling retail portfolio. Meanwhile, we look forward to the openings of new shopping centres including THE SOUTHSIDE in Wong Chuk Hang and The Wai in Tai Wai in the near future.

The Company should expect to begin booking profits for The LOHAS Park Package 10, THE SOUTHSIDE Package 1 and THE SOUTHSIDE Package 2. Overall, profit from property development is dependent on the sales of the property developments and construction progress, and it will vary from year to year. Revenue from property management is recurrent and dependent on the properties under management, which will increase as new projects are completed.

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 the signing of the land grant). These three projects will offer a total of approximately 4,580 more residential units. 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.

PROPERTY RENTAL

In 2021, property rental revenue decreased by 0.6% year on year to HK$4,787 million. Revenue was impacted by rental concessions offered to tenants during the pandemic, which are granted on a case-by-case basis with priority given to small to medium tenants and amortised to the profit and loss account over the remaining lease terms of the respective tenants. 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 were fully acquired in 2020.

Our shopping malls recorded a rental reversion rate of -8.6% and an average occupancy rate of 98%. The Company's 18 floors in Two International Finance Centre had an average occupancy rate of 98%.

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

As at year-end, the Company's attributable share of investment properties in Hong Kong was 256,890 square metres of lettable floor area for retail properties, 39,404 square metres of lettable floor area for offices and 19,634 square metres of property for other use.

During the year, our mall rental business continued to be affected by diminished tourist traffic – the result of on-going boundary closures and anti-pandemic measures – as well as changing retail behaviour among local customers. To help our mall tenants through these difficult times, we implemented a number of strategic initiatives. These included conducting targeted digital marketing campaigns via our MTR Mobile app and launching "eVouchers" to engage customers and drive traffic to shops; introducing customer loyalty and redemption programmes in partnership with tenants to encourage patronage and repeat purchases; and opening pop-up stores with online merchants to capture the growing trend towards e-commerce. We also continued to diversify and optimise the tenant trade mix of MTR malls according to the latest trends and customer preferences.

MTR has implemented a host of measures over the years to protect the environment and reduce the Company's carbon footprint. In 2013, we announced our goal of reducing energy use across our investment property portfolio by 12% by 2023, a target we exceeded three years early. Further information about our environmental efforts can be found in our Sustainability Report 2021.

Investment Property Portfolio in Hong Kong (as at 31 December 2021)

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping Centre Car Park	39,331 –	– 993	100% 100%
Telford Plaza II 7–8/F, Kowloon Bay, Kowloon	Shopping Centre	2,397	–	100%
Telford Plaza II 3–6/F, Kowloon Bay, Kowloon	Shopping Centre Car Park	18,253 –	– 136	100% 100%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping Centre Car Park	11,094 –	– 651	100% 100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping Centre Wet Market Kindergarten Car Park	15,410 1,216 2,497 –	– – – 415	100% 100% 100% 100%
Maritime Square 1, Tsing Yi	Shopping Centre Kindergarten Car Park Motorcycle Park	28,597 920 – –	– – 220 50	100% 100% 100% 100%
Maritime Square 2, Tsing Yi	Shopping Centre Car Park Motorcycle Park	6,448 – –	– 65 21	100% 100% 100%
The Lane, Hang Hau	Shopping Centre Car Park Motorcycle Park	2,629 – –	– 16 1	100% 100% 100%
PopCorn 2, Tseung Kwan O	Shopping Centre Car Park	8,456 –	– 50	100% 100%
PopCorn 1, Tseung Kwan O	Shopping Centre Car Park Motorcycle Park	12,174 – –	– 115 16	50% 50% 50%
G/F, No. 308 Nathan Road, Kowloon	Shop Unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop Unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten Car Park	540 –	– 126	100% 100%
International Finance Centre ("ifc"), Central, Hong Kong – Two ifc – One and Two ifc	 Office Car Park	 39,404 –	 – 1,308	 100% 51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car Park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising Signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop Unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor Sports Hall	13,512	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop Unit	1,096	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car Park Motorcycle Park Park & Ride	– – –	54 10 450	100% 100% 100%
Elements, No. 1 Austin Road West, Kowloon	Shopping Centre Car Park	45,510 –	– 898	81% 81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach Terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping Centre Car Park	7,720 –	– 67	100% 100%
Royal Ascot, Fo Tan	Residential Car Park	2,784 –	– 20	100% 100%
Ocean Walk, Tuen Mun	Shopping Centre Car Park	6,083 –	– 32	100% 100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping Centre Car Park	9,022 –	– 421	100% 100%
Hanford Plaza, Tuen Mun	Shopping Centre Car Park	1,924 –	– 22	100% 100%

Investment Property Portfolio in Hong Kong (at 31 December 2021)*(continued)*

Location	Type	Lettable floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Retail Floor and 1–6/F., Citylink Plaza, Shatin	Shopping Centre	12,154	–	100%
The Capitol, LOHAS Park, Tseung Kwan O	Shop Unit Residential Care Home for the Elderly	391 2,571	– –	100% 100%
Le Prestige, LOHAS Park, Tseung Kwan O	Kindergarten Car Park	800 –	– 2	100% 100%
The Riverpark, No.8 Che Kung Miu Road, Shatin	Shop Unit Kindergarten Car Park	154 708 –	– – 5	100% 100% 100%
Hemera, LOHAS Park, Tseung Kwan O	Kindergarten	985	–	100%
The LOHAS, Tseung Kwan O	Shopping Centre Kindergarten Car Park Motorcycle Park	27,804 1,141 – –	– – 333 33	100% 100% 100% 100%
MONTARA, LOHAS Park, Tseung Kwan O	Car Park	–	162	100%
SEA TO SKY, LOHAS Park, Tseung Kwan O	Car Park	–	52	100%
MARINI, LOHAS Park, Tseung Kwan O	Kindergarten Car Park	729 –	– 103	100% 100%

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

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

Properties Held for Sale (as at 31 December 2021)

Location	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Company's economic interest
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping Centre Car Park	6,026* –	– 330	40% 40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car Park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential Car Park	420** –	– 12	1% 1%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Kindergarten	1,299	–	50%
Residence Oasis, No.15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle Park	–	5	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle Park	–	24	70%
Wings at Sea and Wings at Sea II, LOHAS Park, Tseung Kwan O	Residential Car Park Motorcycle Park	1,390** – –	– 105 23	20.1% 20.1% 20.1%
MALIBU, LOHAS Park, Tseung Kwan O	Residential Car Park	– –	– 45	47% 47%
LP6, LOHAS Park, Tseung Kwan O	Residential Car Park Motorcycle Park	– – –	– 199 4	63.3% 63.3% 63.3%
MONTARA and GRAND MONTARA, LOHAS Park, Tseung Kwan O	Motorcycle Park	–	19	90.1%
SEA TO SKY, LOHAS Park, Tseung Kwan O	Motorcycle Park	–	27	20.55%
MARINI, GRAND MARINI and OCEAN MARINI, LOHAS Park, Tseung Kwan O	Motorcycle Park	–	29	38.0%
The Palazzo, No. 28 Lok King Street, Shatin	Retail Car Park Motorcycle Park	2,000 – –	– 9 5	55% 55% 55%
Festival City, No. 1 Mei Tin Road, Shatin	Car Park	–	78	100%
Lake Silver, No. 599 Sai Sha Road, Shatin	Car Park	–	2	92.88%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Car Park	–	2	87%

* *Lettable floor area*
** *Saleable area*

EXPANDING THE RETAIL PORTFOLIO

Our two new malls are expected to add approximately 30% to the attributable GFA of our existing retail portfolio as at 31 December 2021.

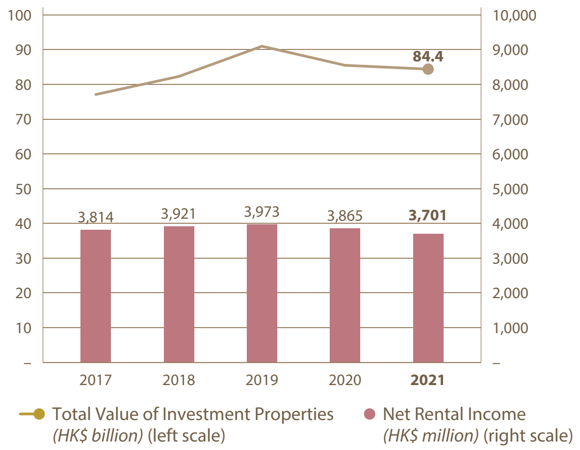
THE SOUTHSIDE

In January 2021, we announced that our new 47,000-square-metre (GFA) mall at Wong Chuk Hang would be named THE SOUTHSIDE. Superstructure works are currently underway, and the mall is expected to open in 2023.

The Wai

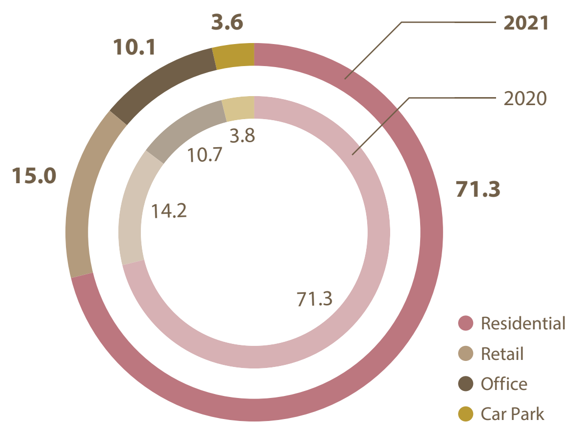
The Wai is our 60,620-square-metre (GFA) shopping centre at Tai Wai Station. The construction issue at THE PAVILIA FARM III has cast uncertainties as to the opening date of The Wai. The developer has submitted the report regarding the issue; meanwhile, superstructure works for The Wai are on-going, and the mall is expected to open in 2023.

Investment Properties in Hong Kong



Distribution of Hong Kong Property Management Income

(Percentage)



PROPERTY MANAGEMENT

Property management revenue in Hong Kong increased by 5.1% to HK$249 million compared to 2020. As at 31 December 2021, MTR managed more than 114,000 residential units and over 820,000 square metres of office and commercial space in Hong Kong.

PROPERTY DEVELOPMENT

Hong Kong property development profit for 2021 was HK$9,277 million, primarily due to the proceeds from LOHAS Park Package 7, Package 8 and Package 9.

Pre-sales

The Company's property development business achieved satisfactory performance in 2021 with encouraging sales from several projects.

Property Development Projects	Units Sold as at 31 December 2021
SEA TO SKY (LOHAS Park Package 8)	All 1,422 units
MARINI, GRAND MARINI and OCEAN MARINI (LOHAS Park Package 9)	All 1,653 units
LP10 (LOHAS Park Package 10)	87% of 893 units
THE PAVILIA FARM I (Tai Wai Station)*	99% of 783 units
THE PAVILIA FARM II (Tai Wai Station)*	99% of 1,415 units
THE PAVILIA FARM III (Tai Wai Station)*	95% of 892 units
SOUTHLAND (THE SOUTHSIDE Package 1)	78% of 800 units
La Marina (THE SOUTHSIDE Package 2)	76% of 600 units

* *Before sales suspension on 7 July 2021*

Pre-sale activities of West Rail property development projects, where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), also continued during the year. As at 31 December 2021, 99% of the 1,188 units at Cullinan West II (Nam Cheong Station) and 95% of the 1,172 units at Cullinan West III (Nam Cheong Station) were sold, while all 1,050 residential units of Cullinan West (Nam Cheong Station) and all 720 residential units of the Sol City (Long Ping Station (South)) were sold. Sales of The YOHO Hub (Phase 1 of Yuen Long Station) were launched on 26 December 2021, with 26% of the 1,030 units sold as at 31 December 2021. We also aim to launch pre-sales for the Kam Sheung Road Station Package 1 property development in 2022.

Pre-sales at THE PAVILIA FARM III (Tai Wai Station) were temporarily suspended in July 2021. 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.

Property Tendering

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. In April 2021, our last package at THE SOUTHSIDE, THE SOUTHSIDE Package 6, was awarded to a subsidiary of Wheelock Properties 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.

Future Development

The Company currently has 15 residential property projects under development, which are expected to deliver approximately 20,000 quality units to the market in support of Government's objective to increase housing supply.

The Layout Plan for the Siu Ho Wan Depot Topside Property 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. Roughly half of the development's 20,000 units will be Subsidised Sale Flats. It will also provide community facilities and a 30,000-square-metre shopping mall. 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 of the land grant.

Tender for Pak Shing Kok Ventilation Building property development is in progress. We will start preparation work for the tendering of the Tung Chung East Station Package 1 site (1,500 units) subject to our entering into a project agreement with Government on the Tung Chung Line Extension, which is expected in 2022.

We continue to explore potential development 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 studying development opportunities related to the new projects under the Northern Metropolis Development Strategy and the new Science Park/Pak Shek Kok Station project that were announced during the Chief Executive's 2021 Policy Address.

Property Development Packages Completed during the year and awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Tender award date	Expected completion date
Ho Man Tin Station					
Package 1	Great Eagle Group	Residential	69,000	December 2016	By phases in 2024
Package 2	Chinachem Group	Residential	59,400	October 2018	By phases in 2024
LOHAS Park Station					
MONTARA and GRAND MONTARA	Wheelock and Company Limited	Retail Kindergarten Residential	44,500 1,160 70,260	June 2015	Completed in 2019 Completed by phases in 2021
SEA TO SKY	CK Asset Holdings Limited	Residential	97,000	October 2015	Completed in 2021
MARINI, GRAND MARINI and OCEAN MARINI	Wheelock and Company Limited	Residential Kindergarten	104,110 810	December 2015	Completed by phases in 2021
LP10	Nan Fung Group Holdings Limited	Residential	75,400	March 2016	2022
Package 11	Sino Land Company Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	88,858	April 2019	2025
Package 12	Wheelock and Company Limited	Residential	89,290	February 2020	2026
Package 13	Sino Land Company Limited, Kerry Properties Limited, K. Wah International Holdings Limited and China Merchants Land Limited	Residential	143,694	October 2020	2026
Tai Wai Station					
THE PAVILIA FARM	New World Development Company Limited	Residential Retail	190,480 60,620*	October 2014	To be confirmed
Tin Wing Stop					
Tin Wing	Sun Hung Kai Properties Limited	Residential Retail	91,051 205	February 2015	2024
Wong Chuk Hang Station (THE SOUTHSIDE)					
SOUTHLAND	Road King Infrastructure Limited and Ping An Real Estate Company Limited	Residential	53,600	February 2017	2022
La Marina	Kerry Properties Limited and Sino Land Company Limited	Residential	45,800	December 2017	2022
Package 3	CK Asset Holdings Limited	Residential Retail	92,900 47,000	August 2018	2024
Package 4	Kerry Properties Limited, Swire Properties Limited and Sino Land Company Limited	Residential	59,300	October 2019	2025
Package 5	New World Development Company Limited, Empire Development Hong Kong (BVI) Limited, CSI Properties Limited and Lai Sun Development Company Limited	Residential	59,100	January 2021	2026
Package 6	Wheelock Properties Limited	Residential	46,800	April 2021	2027
Yau Tong Ventilation Building					
Yau Tong Ventilation Building	Sino Land Company Limited and CSI Properties Limited	Residential	30,225	May 2018	2025
Kam Sheung Road Station#					
Package 1	Sino Land Company Limited, China Overseas Land & Investment Limited and K. Wah International Holdings Limited	Residential	114,896	May 2017	2025
Yuen Long Station#					
Yuen Long	Sun Hung Kai Properties Limited	Residential Retail	126,455 11,535^	August 2015	By phases from 2022 to 2023

\# *as a development agent for the relevant subsidiaries of KCRC*
* *excluding a bicycle park with cycle track*
^ *including a 24-hour pedestrian walkway and a covered landscape plaza*

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
Pak Shing Kok Ventilation Building	Residential	27,000	2022	2031
Tung Chung Traction Substation	Residential	87,300	2022	2030 – 2031

Notes:

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

2 *These property development packages are subject to review in accordance with land grant conditions.*

West Rail Line Property Development Plan

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

Station/Site	Site Area *(hectares)*	Actual/Expected tender award date	Actual/Expected completion date
Property Development Packages Awarded			
Tuen Mun	2.65	August 2006	By phases from 2012 – 2014
Tsuen Wan West (TW7)	2.37	September 2008	2014
Nam Cheong	6.18	October 2011	By phases from 2017 – 2019
Long Ping (North)	0.99	October 2012	2017
Tsuen Wan West (TW5) Cityside	1.34	January 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	August 2012	2018
Tsuen Wan West (TW6)	1.38	January 2013	2018
Long Ping (South)	0.84	June 2013	2019
Yuen Long	3.91	August 2015	By phases from 2022 – 2023
Kam Sheung Road Package 1	4.17	May 2017	2025
	28.12		
Property Development Packages to be Awarded			
Kam Sheung Road Package 2	About 5.17	2024 – 2025	2031 – 2032
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
	28.73		
Total	**56.85**		

OTHER BUSINESSES

Ngong Ping 360

Revenue for the Ngong Ping Cable Car and its associated theme village ("Ngong Ping 360") increased by 58.5% to HK$103 million during the year under review. Patronage increased by 78% year on year to 0.46 million. Revenue and patronage continued to be affected by the pandemic, which impacted visitation from Mainland China and overseas markets.

To attract domestic visitation, we launched a number of seasonal events organised in collaboration with well-known local and international brands. We also provided early bird discounts for online pre-booked cable car tickets as well as discounts for children and the elderly.

Octopus

The Company's share of profit from Octopus Holdings Limited ("OHL") increased by 28.2% to HK$232 million, mainly due to higher transaction volume boosted by the recovery of the retail sector in 2021. As at 31 December 2021, more than 71,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation stood at 29.7 million. Average daily transaction volumes and value were 14.1 million and HK$269.9 million, respectively.

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 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.

HONG KONG NETWORK EXPANSION

Hung Hom to Admiralty Section **97.2%** Complete

Tung Chung Line Extension and **Tuen Mun South Extension** Projects were Gazetted Under Railways Ordinance

Progressing the Design of **Kwu Tung Station** of East Rail Line, **Northern Link** and **Hung Shui Kiu Station** Projects

AIM

MTR strives to grow its "Hong Kong Core" and support the city's economic development through the design and construction of quality new railway projects, thus expanding its world-class railway network while connecting more and more communities across the territory with safe, environmentally friendly, affordable and accessible mass transit.

CHALLENGES

The Company is working to meet its scheduled opening date of June/July 2022 for the Hung Hom to Admiralty Section of the Shatin to Central Link while also progressing a number of important projects under Railway Development Strategy 2014 ("RDS 2014").

STRATEGIES

MTR continuously enhances its project design, construction and management to ensure world-class railway networks that support the current and future needs of its communities, integrating digital and leading-edge technologies while strengthening collaboration among key internal and external stakeholders.

OUTLOOK

Following the opening of the full Tuen Ma Line in June 2021, MTR remains focused on completing the Hung Hom to Admiralty Section of the Shatin to Central Link, which will bring the entire project to completion and connect major population centres in Hong Kong more seamlessly than ever.

The Company is working to meet the targeted opening date of June/July 2022 for the Hung Hom to Admiralty Section of the Shatin to Central Link.

The Company continues to progress a number of projects under RDS 2014. The Tung Chung Line Extension and Tuen Mun South Extension were gazetted in December 2021 and January 2022, respectively. We are progressing the planning and design of the new Kwu Tung Station on the East Rail Line, the 10.7-km Northern Link and Hung Shui Kiu Station, and we continue to work closely with Government on other RDS 2014 projects.

The Company is also exploring ways to support Government's Northern Metropolis Development Strategy and the construction of a new Science Park/Pak Shek Kok Station, both of which were announced in the 2021 Policy Address.

The Company opened the full Tuen Ma Line on 27 June 2021, commencing service for the longest railway line in Hong Kong. The Company is now focused on delivering the cross-harbour Hung Hom to Admiralty Section of the Shatin to Central Link, which will complete this major infrastructure project.

Work continues for various projects under the RDS 2014 development framework for Hong Kong railways. Together, these projects could increase the city's rail network by 35 km and bring with them a multitude of development opportunities for MTR and the communities they serve.

The Company joined Hong Kong in welcoming the announcement of the Northern Metropolis Development Strategy, an initiative that promises to provide strong foundations for future growth and closer integration with the Greater Bay Area.

SHATIN TO CENTRAL LINK

The 17-km Shatin to Central Link, a project managed by the Company on behalf of Government, will enhance Hong Kong's rail network by connecting several existing railway lines and significantly reducing travel times between New Territories North, Kowloon and Hong Kong Island. Once completed, it will give passengers more routes to choose from – particularly those using the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of the East Rail Line – thus reducing congestion while boosting passenger convenience and comfort.

Project Progress

The first phase of the Shatin to Central Link, the 11-km Tai Wai to Hung Hom Section, opened with the commissioning of the full Tuen Ma Line in June 2021. This new section connects the former Ma On Shan Line to the former West Rail Line via Tai Wai and Hung Hom stations. On 21 June 2021, the Company entered into agreements with Government and KCRC to operate the Tuen Ma Line for a concession period of two years from 27 June 2021.

In addition to greater convenience, passengers may also enjoy artistic elements that have been incorporated into the design of various stations along the new section. In particular, the Company collaborated with the Antiquities and Monuments Office to showcase approximately 400 archaeological relics from the Song-Yuan period in Sung Wong Toi Station. The relics, which were unearthed during the station's construction, include Song Dynasty coins, ceramics and architectural components.

The second phase of the Shatin to Central Link is the 6-km Hung Hom to Admiralty Section, which was 97.2% complete as at 31 December 2021. Once finished, it will extend the East Rail Line under Victoria Harbour from Hung Hom to Admiralty Station via Exhibition Centre Station.

As part of this project, the Company has upgraded the East Rail Line signalling system to ensure compatibility between the new Hung Hom to Admiralty section and the existing East Rail Line. The new signalling system and first of the new 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.

After reviewing the Report of the Investigation Panel into the postponement of the commissioning of the new signalling system of the East Rail Line, the Company announced the establishment of a dedicated Shatin to Central Link Technical and Engineering Assurance Team to monitor the project from both technical and service readiness perspectives and to identify any critical issues for timely reporting and follow-up. A new Service Reliability Report is being prepared for Government before the commissioning of new line.

Concerns relating to construction works

In April 2021, the audit report submitted by the Independent Audit Panel for "Implementation of Recommendations in the Final Report of the Commission of Inquiry ("the COI") into the Construction Works at and near the Hung Hom Station Extension under the Shatin to Central Link Project" was released. The report concludes that the Company has implemented the majority of the COI recommendations. Regarding the remaining recommendations, which primarily relate to amendments of the project management procedures and review of the suite of contract documents to be adopted for future projects, the Company is making satisfactory progress towards implementation, with a view to having these in place ready for the construction of the new RDS 2014 projects.

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

OTHER NEW RAILWAY PROJECTS

RDS 2014

During the year, the Company made progress on a number of projects under the RDS 2014 framework for the future development of the Hong Kong railway network.

In December 2021, the Tung Chung Line Extension became the first railway project under RDS 2014 to be gazetted under the Railways Ordinance. After receiving Government's invitation to proceed with detailed planning and design in April 2020, preliminary design commenced in June 2020. Construction is expected to commence in 2023 and be completed in 2029.

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

The Tuen Mun South Extension is a 2.4-km extension of the Tuen Ma Line from the existing Tuen Mun Station to a new terminus at Tuen Mun South via a proposed intermediate station between Tuen Mun Station and the new Tuen Mun South Station. Following Government's invitation to proceed with the detailed planning and design in May 2020, detailed planning and design commenced in the fourth quarter of 2020. The scheme was gazetted under the Railways Ordinance in January 2022. Construction is targeted to commence in 2023 and be completed in 2030.

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

After receiving Government's invitation to proceed with detailed planning and design in December 2020, we awarded the consultancy for the detailed planning and design of Kwu Tung Station on the East Rail Line in April 2021, with construction targeted to commence in 2023 for completion in 2027. The preliminary design consultancy for the Northern Link Main Line and associated stations was awarded in July 2021, with construction targeted to commence in 2025 for completion in 2034.

Hung Shui Kiu Station will be located between Tin Shui Wai and Siu Hong stations along the Tuen Ma Line to serve the growing Hung Shui Kiu/Ha Tsuen New Development Area, thus increasing development potential and contributing to more job opportunities in the area. We were invited by Government to proceed with detailed planning and design in May 2021, and we awarded the preliminary design consultancy for the project in October 2021. Construction is targeted to commence in 2024 for completion in 2030.

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 certain of these 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 are also working with Government on the South Island Line (West), a proposal for which was submitted in December 2020.

Opportunities under the Policy Address 2021

During the Policy Address in October 2021, the Chief Executive announced plans for the Northern Metropolis Development Strategy, an initiative designed to foster the city's future urban and economic development through enhanced railway networks and more extensive connectivity with the Greater Bay Area. Railway projects include:

- constructing the Hong Kong-Shenzhen Western Rail Link to connect the Hung Shui Kiu/Ha Tsuen New Development Area and Qianhai in Shenzhen;
- extending the Northern Link northwards to connect to the new Huanggang Port in Shenzhen via the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop, a project that will be known as the Northern Link Spur Line;
- extending the East Rail Line to Luohu in Shenzhen;
- extending the Northern Link eastwards from Kwu Tung Station to connect with Lo Wu, Man Kam To and Heung Yuen Wai as well as further southwards to Fanling; and
- examining the feasibility of constructing an automated people-mover system from Tsim Bei Tsui to Pak Nai.

Among these five projects, the Company has already commenced a study on the Northern Link Spur Line after receiving an invitation from Government in early 2021. Government has also invited MTR to study the construction of a new Science Park/Pak Shek Kok Station on the East Rail Line at the current site of The Hong Kong Education University Sports Centre at Pak Shek Kok, as well as the use of the station site and its adjoining land to provide more residential units and auxiliary facilities.

The Company will support Government and contribute its expertise in railway construction and operations where needed to assist with these initiatives and help foster the long-term growth of Hong Kong.

MAINLAND CHINA AND INTERNATIONAL BUSINESSES

12	3,255 km	1.7 billion
Railway Services in 4 Countries	Operating Route Length Outside of Hong Kong	Total Patronage Outside of Hong Kong

AIM

Our Mainland China and International Businesses, representing one of the Company's three core pillars for strategic growth, allow us to export our brand and know-how in railway services to major growth markets outside Hong Kong, generating diversified revenue streams and positioning MTR as a leading global provider of environmentally friendly mass transit.

CHALLENGES

COVID-19 continued to pose challenges in Mainland China and overseas as local authorities worked to get the pandemic under control. Meanwhile, varying operating and investment models, higher customer service expectations, and the entry of new players to international passenger rail markets all continued to alter the competitive landscape.

STRATEGIES

During the year, the Company pursued new transit-oriented development ("TOD") opportunities in Mainland China, "Rail plus Property" development opportunities in Europe and Australia, and the further diversification of its revenue streams through asset replacement, maintenance, and public-private partnership ("PPP") infrastructure development opportunities while retaining existing contracts by providing consistently excellent service.

OUTLOOK

Our Mainland China and International Businesses form a key component of the Company's future. As such, we will continue to explore new opportunities outside of Hong Kong that will help expand and further diversify our businesses – both geographically and operationally – while securing our existing contracts through the consistent delivery of world-class railway construction, operations and maintenance.

COVID-19 is expected to keep affecting our businesses outside Hong Kong for a while, but the extent to which it impacts revenue is dependent on the business models of different contracts. The emergence of effective vaccines, rising vaccination rates and increased patronage in certain markets are positive indications that continued gradual recovery is possible.

In the meantime, a number of new railway lines have either recently opened or are targeted for completion soon and will thus begin generating revenue for the Company in the near term and beyond. In Mainland China, these include the final section of Beijing Metro Line 14 and the initial section of Beijing Metro Line 17, both of which opened in end-2021, and the full Beijing Metro Line 16, which is scheduled for completion after 2022 the earliest.

MTR is involved in the construction, operations and maintenance of railway networks in Mainland China, Macao, Europe and Australia. In 2021, MTR and its subsidiaries, associates, and joint ventures carried an average of approximately 5.3 million passengers per weekday and a total of 1,700 million passengers for the year across these important markets. The Company is also involved in the development, rental and management of quality properties in Mainland China.

RAILWAY BUSINESSES IN MAINLAND CHINA

Beijing

In Beijing, our associate operates Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14"), the Northern Section and Middle Section of Beijing Metro Line 16 ("BJL16"), and the initial section of Beijing Metro Line 17 ("BJL17"). The average on-time performance of these lines in 2021 was 99.9%. Gradual recovery from the COVID-19 pandemic saw patronage increase during the year compared to 2020.

Beijing Metro Line 4 and the Daxing Line

BJL4 and the Daxing Line both maintained stable operations in 2021. Together, the two lines recorded approximately 317 million passenger trips and average weekday patronage of 980,000, representing increases of 32.5% and 32%, respectively, compared to 2020.

Beijing Metro Line 14

In 2021, the first three phases of BJL14 recorded combined passenger trips of approximately 202 million and average weekday patronage of approximately 651,000, both representing year-on-year increases of 35% and 36%, respectively.

The final section of BJL14 opened for passenger service on 31 December 2021. This 5-station section links the first three phases of BJL14, creating a full 50.8-km BJL14 with 35 stations that runs through several thriving business districts in the southwest, south and east of Beijing.

Beijing Metro Line 16

The Northern and Middle sections of BJL16 recorded combined passenger trips of approximately 45 million and average weekday patronage of approximately 148,000 in 2021. This was the first full year of operation for the Middle Section of BJL16, which opened on 31 December 2020. Yuyuantan East Gate Station, a new station in the Middle Section of BJL16, was opened on 31 December 2021. The full BJL16 is expected to open after 2022 at the earliest.

Beijing Metro Line 17

The initial section of BJL17 opened for passenger service on 31 December 2021. This 15.8-km, 7-station Southern Section of BJL17 serves residents living in the southeast of the city. Our associate was awarded a 20-year operations and maintenance concession. Rolling stock will be leased, with lease payments to be made in instalments after the opening of each phase.

Shenzhen

Shenzhen Metro Line 4 and North Extension

Shenzhen Metro Line 4 ("SZL4") is operated by our wholly owned subsidiary. Both SZL4 and the SZL4 North Extension maintained stable operations in 2021 and on-time train service performance of 99.9%. An improved pandemic situation resulted in a year-on-year increase in patronage of 22% to 189 million passengers. Average weekday patronage was 537,000.

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.

Shenzhen Metro Line 13

Our wholly owned subsidiary leads a consortium that was awarded the Shenzhen Metro Line 13 ("SZL13") PPP contract in 2020. During the year, work on SZL13 included the awarding of signalling and rolling stock contracts. The line is expected to commence service in 2023.

Hangzhou

Hangzhou Metro Line 1, Xiasha Extension and Airport Extension

Our associate operates Hangzhou Metro Line 1 ("HZL1"), the HZL1 Xiasha Extension and HZL1 Airport Extension. In 2021, patronage of HZL1 and its extensions increased by 24% year-on-year to 267 million. Average weekday patronage for HZL1 and its extensions was 753,000, and on-time train service performance remained at 99.9%.

Hangzhou Metro Line 5

In 2021, total patronage of Hangzhou Metro Line 5 was 186 million. Average weekday patronage was 565,000.

Rolling Stock Maintenance

Our rolling stock maintenance company with the CRRC Hangzhou Digital Technology Co., Ltd consortium continued to overhaul the rolling stock fleet of certain lines in Hangzhou and Shenzhen as part of the contracts that were awarded in 2020 and 2021.

PROPERTY BUSINESSES IN MAINLAND CHINA

Shenzhen

The Tiara residential development at SZL4 Depot Site Lot 1 has a total developable GFA of approximately 206,167 square metres with a retail centre of about 10,000 square metres by GFA. 26 of the remaining 32 residential units were sold as at 31 December 2021.

TIA Mall continued to see reduced foot traffic due to COVID-19, resulting in an average occupancy rate of 74%.

Beijing

In 2021, the occupancy rate for Ginza Mall in Beijing decreased to 70% due to the pandemic.

Tianjin

Construction of the Beiyunhe Station shopping mall is in progress and targeted for completion in 2024.

Property Management

As at 31 December 2021, the Company managed a total of approximately 406,000 square metres of self-developed and other third-party properties in Mainland China.

MACAO RAILWAY BUSINESS

MTR operates and maintains Macao's first rapid transit system, the Macao Light Rapid Transit Taipa Line. We also provide project management and technical assistance to the Macao Government for the design development and project delivery of Macao Light Rapid Transit extension lines.

From 20 October 2021, train services of the Macao Light Rapid Transit Taipa Line have been suspended temporarily for six months to facilitate the replacement of high-voltage cables by the responsible third-party.

EUROPE RAILWAY BUSINESSES

United Kingdom

TfL Rail/Elizabeth Line

In London, our wholly owned subsidiary operates the Crossrail operating concession under the TfL Rail brand. Services include Liverpool Street Station to Shenfield, Paddington Station to Heathrow Airport, and Paddington Station to Reading. MTR continues to support the phased opening of TfL Rail, which will be renamed Elizabeth Line upon the opening of the Central Operating Section. Stable operations and on-time performance were achieved throughout the year. Meanwhile, 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. The pandemic continued to impact ridership on TfL Rail, but as this concession has no fare revenue risk, our financial interest is reasonably protected. Overall, financial performance for 2021 was in line with our expectations.

South Western Railway

Our associate operates the South Western Railway franchise, one of the largest rail networks in the UK, and achieved stable operations during the year despite the pandemic. 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 and the largest rolling stock maintenance company by vehicles maintained. The Company operates four rail businesses via wholly owned subsidiaries: Stockholm Metro (Stockholms tunnelbana); MTRX, an intercity service between Stockholm and Gothenburg; the Stockholm commuter rail service (Stockholms pendeltåg), which serves the greater Stockholm area; and the newly takeover Mälartåg regional traffic service, which connects Stockholm with all major towns in the Mälardalen region.

Stockholm Metro (Stockholms tunnelbana) and Stockholm Commuter Rail Service (Stockholms pendeltåg)

During the year, Stockholm Metro and stockholm commuter train maintained full service despite the pandemic.

MTRX

MTRX experienced significant drops in patronage and revenue due to COVID-19 and related restrictions on carry capacity as well as travel advisories issued by the local authority. Options to manage the situation going forward are under review.

Mälardalen Regional Traffic (Mälartåg)

In December 2020, our wholly owned subsidiary was awarded the operations and maintenance concession for the Mälartåg train service, starting in December 2021 and covering an eight-year period with a one-year option for extension. The award was appealed by two competing bidders. During the legal process, MTR signed an interim agreement with the regional Public Transport Authority stipulating a two-year commitment with a further one-plus-one-year extension to 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.

The Mälartåg network usually serves around 11 million passenger journeys a year and connects Stockholm with all major cities in the Mälardalen region, including Linköping in the south, Uppsala in the north and Örebro in the west. A further line extension to the north, the Upptåget service, will be included from mid-2022.

AUSTRALIA RAILWAY BUSINESSES

Melbourne's Metropolitan Rail Service

Operated by our subsidiary, the Melbourne metropolitan rail network achieved satisfactory operational performance in 2021, although lockdowns and other anti-pandemic measures continued to affect patronage. During the year, we supported our client on a variety of initiatives to improve passenger service.

Metro North West Line in Sydney

In Sydney, MTR is a member of the Northwest Rapid Transit ("NRT") Consortium and is responsible for the delivery of the PPP contract including design, financing and construction of the Metro North West Line as well as its on-going operations and maintenance. The Metro North West Line achieved stable service performance during the year. Patronage continued to be impacted by the pandemic, but there is no fare revenue risk according to the terms of this franchise.

Sydney Metro City & Southwest Project

In 2019, the NRT consortium was awarded the PPP contract for the delivery of new metro trains and core rail systems as well as the operation and maintenance of the combined Metro North West and Sydney Metro City & Southwest lines until 2034. The Company continued to make progress on this project during the year despite the severe impact of the pandemic on all construction and supply chain activities.

GROWTH OUTSIDE OF HONG KONG

The Company regularly explores opportunities to develop its operations in Mainland China and international markets, which enables it to connect communities around the world with environmentally friendly mass transit services while diversifying its revenue and building the MTR brand on a global scale.

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

We continue to explore opportunities for TOD cooperation to build transport infrastructure as well as property and community projects in the Greater Bay Area. The Company is the TOD advisor of the Dongguan Binhaiwan New Area Government for the conceptual planning of the High Speed Rail Binhaiwan Station TOD project. We are also studying rail-related investment opportunities in other Greater Bay Area cities. Moving forward, we will continue leveraging our experience and expertise as we strive to be an active participant in the integrated development and TOD of the Greater Bay Area.

We are also studying station commercial and related business in Chengdu under our joint venture with the subsidiaries of Chengdu Rail Transit Group.

Mainland China and International Railway Businesses at a Glance

	MTR Corporation Shareholding	Business Model	Commencement of Franchise/Expected Date of Commencement of Operation	Franchise/ Concession Period	Total Number of Stations	Route Length *(km)*
Mainland China						
Beijing Metro Line 4 ("BJL4")	49%	Public-Private-Partnership ("PPP")	September 2009	30 years	24	28.2
Daxing Line of BJL4	49%	Operations and Maintenance ("O&M") Concession	December 2010	10 years till 2020 and 2 years extension till 2022	11	21.8
Beijing Metro Line 14 ("BJL14")	49%	PPP	Full Line: by phases from May 2013 to December 2021	30 years from December 2015	Full Line: 35[1]	Full Line: 50.8
Beijing Metro Line 16 ("BJL16")	49%	Phase 1: O&M Concession Full Line: PPP	Phase 1: December 2016 Phase 2: December 2020 and December 2021 Full Line: Targeted after 2022	Phase 1: till full line opens Full Line: 30 years	Phase 1 and 2: 18[1] Full Line: 29	Phase 1 and 2: 31.9 Full Line: 49.8
Beijing Metro Line 17	49%	O&M Concession	Phase 1: December 2021 Full Line: Subject to local government arrangement	20 years from December 2021	Phase 1: 7 Full Line: 21	Phase 1: 15.8 Full Line: 49.7
Shenzhen Metro Line 4 ("SZL4")	100%	Build-Operate-Transfer[2]	Phase 1 and 2: by phases from July 2010 to June 2011	30 years	Full Line: 15	Full Line: 20.5
SZL4 North Extension	100%	O&M Concession	October 2020	End together with SZL4 concession	8	10.8
Shenzhen Metro Line 13	83%	PPP	2023	30 years	16	22.4
Hangzhou Metro Line 1 ("HZL1")	49%	PPP	November 2012	25 years	25[3]	35.6[3]
HZL1 Xiasha Extension	49%	O&M Concession	November 2015	End together with HZL1 concession	3	5.6
HZL1 Phase 3 (Airport Extension)	49%	O&M Concession	December 2020	End together with HZL1 concession	5	11.2
Hangzhou Metro Line 5 ("HZL5")	60%	PPP[4]	Initial Section: June 2019 Latter Section (Included West Extension): April 2020	25 years	39	56.2
Macao						
Macao Light Rapid Transit Taipa Line	100%	O&M Service Contract	December 2019	80 months	11	9.3
Europe						
TfL Rail/Elizabeth Line, United Kingdom	100%	O&M Concession	May 2015	8 years	Until End 2021: 31 Full line: 41	Until End 2021: 99 Full line: 128
South Western Railway, United Kingdom	30%	O&M Concession[5]	May 2021	2 years	210	998
Stockholm Metro, Sweden	100%	O&M Concession	November 2009	8 years till 2017, 6 years extension till 2023 and 1.5 – 2 years extension till 2025[6]	100	108
MTRX, Sweden	100%	Open Access Operation	Initial service: March 2015 Full schedule: August 2015	Operating license is subject to renewal	7	462
Stockholm commuter rail, Sweden	100%	O&M Concession	December 2016	10 years	54	247
Mälartåg, Sweden	100%	O&M Concession	December 2021	2 years + 1 year + 1 year[7]	44	1,060
Australia						
Melbourne's Metropolitan Rail Service	60%	O&M Concession	November 2009	8 years till 2017 and 7 years extension till 2024	222	409
Sydney Metro North West Line	Mixed	PPP (Operations, Trains & Systems)	May 2019	15 years	13	36
Sydney Metro City & Southwest Line	Mixed	PPP (Operations, Trains & Systems)	Target in 2024	10 years after service commencement	18	30

Notes:

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

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

3 *HZL1 Linping Section became an independent operation under Hangzhou Metro Line 9 in July 2021.*

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

5 *In May 2021, South Western Railway signed a 2-year term National Rail Contract lasting until May 2023.*

6 *In December 2021, public transport authority decided to extend this contract for a minimum of 18 months and a maximum of 24 months.*

7 *Our subsidiary took over Mälartåg's operation from 12 December 2021 under an interim agreement for a period of 2 years with a one plus one-year extension option at the discretion of the public transport authority.*

CORPORATE RESPONSIBILITY

95 Volunteering Projects Organised	HK$10.7 million Donated and Sponsored to Charitable and Other Organisations	Setting Science-Based Targets for 2030 and achieving Carbon Neutrality by 2050

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

MTR's rail and property services together form integral parts of people's lives and fulfil our purpose to "keep cities moving". Our sustainability efforts, underpinned by our sustainable financial model, focus on ensuring safe, reliable, inclusive and environmentally friendly operations across these services and throughout all aspects of our business.

The Company's Corporate Strategy, "Transforming the Future", was introduced in 2020 to ensure sustainable long-term growth according to robust environmental, social and governance ("ESG") principles, operational excellence, and innovation. We are striving to foster an even stronger sense of corporate responsibility throughout our organisation as we address our communities' ever-changing societal and environmental needs and work together toward a better future.

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

The Sustainability Report contains an Independent Assurance Report prepared by an external auditor, who performed limited assurance in relation to certain sustainability performance data. The Sustainability Report 2021 has been published on our sustainability website, and includes data for our Hong Kong, Mainland China and international businesses covering Greenhouse Gas ("GHG") Emissions; staff indicators such as turnover and training days; safety performance for operations, staff and contractors; and supply chain management figures.

KEEP CITIES MOVING SUSTAINABLY

Our Corporate Strategy outlines a business development approach guided by strong ESG principles to create value for all our stakeholders. It sets out three priorities for the betterment of our Company and the communities where it operates – GHG Emissions Reduction, Social Inclusion, and Advancement & Opportunities – and 10 commitments that further define the areas in which we strive to make a difference. It also establishes clear focus areas for each commitment, giving focus to our efforts and helping us achieve meaningful results.

3 SOCIAL AND ENVIRONMENTAL OBJECTIVES AND 10 COMMITMENTS

Social Inclusion

As a provider of public transport services for all, social inclusion lies at the very heart of who we are and what we do

Contribute to the following United Nations Sustainable Development Goals ("SDGs"):

8, 10, 11

Commitments

1 Universal Basic Mobility

2 Diversity & Inclusion

3 Equal Opportunities

Advancement & Opportunities

As we fulfil our vision to connect and grow communities, we create opportunities for others to develop themselves and grow alongside us

Contribute to the following SDGs:

3, 4, 8, 9

Commitments

4 Employees

5 Business Partners

6 Future Skills & Innovation

GHG Emissions Reduction

As a low-carbon transport provider, we are committed to managing our environmental footprint and achieving carbon neutrality

Contribute to the following SDGs:

7, 9, 11, 12, 13

Commitments

7 Carbon Emissions

8 Clean Energy and Energy Efficiency

9 Waste Management

10 Green and Low-carbon Designs

SOCIAL INCLUSION

Community Outreach

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

On a corporate level, we collaborate with non-profit organisations and social enterprises to address evolving community needs. We also encourage our employees to volunteer for activities that benefit the community. Our staff continued to volunteer their own time through the "More Time Reaching Community" Scheme. This year, 95 volunteering projects were organised, involving 1,730 participating volunteer headcounts and contributing over 8,500 hours of volunteer services to help people in need. Various volunteering activities focused on supporting the underprivileged groups and the elderly to combat against COVID-19. Our volunteers also organised flight simulation for the mentally or physically challenged beneficiaries for them to experience boarding on a plane, and took part in green activities such as hiking trail clean-ups. To support the Company's ESG Strategy, MTR Volunteering Month with three community projects under the theme of "Happy Rail Green & Love" were organised from June to July.

In 2021, MTR donated and sponsored HK$10.7 million to charitable and other organisations. In September 2021, The Community Chest recognised MTR as one of its top 10 Donors of the Year for raising more than HK$2 million, of which around HK$0.7 million was from staff donations.

To promote universal basic mobility, we stepped up dialogue with The Hong Kong Council of Social Service and paid visits to various non-governmental organisations to better understand the mobility needs of different service users. We also introduced the inclusive elements of our facilities to various groups and hosted tailored visits for non-governmental organisations to the Shek Kong Stabling Sidings and Vibrant Express train to collect feedback from relevant stakeholders, for example members of ethnic minority families.

To help enhance internal awareness of the special needs of different groups within our community, we collaborated with community partners to organise a series of online Corporate Responsibility Talks for more than 300 staff members, covering topics such as persons with intellectual disabilities, at-risk youth and the homeless. Follow-up volunteering activities were arranged when appropriate to turn these learning activities into community service.

During the year, we continued to offer fare rebates and special concessions to ensure that our rail transit services remain affordable for all, especially those whose livelihoods have been impacted by COVID-19. We continued to grant rental concessions to affected tenants, extending relief primarily to small to medium tenants on a

case-by-case basis. Since the beginning of the pandemic, we have also been providing free Airport Express tickets through the Hospital Authority to healthcare workers who need to travel between AsiaWorld-Expo Station and the urban area.

Arts & Culture

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

One of the artistic highlights of the year was our partnership with the Hong Kong Ballet, "The Ballet Encounters @ MTR", which allowed customers to enjoy entertaining videos of dancers performing in front of iconic "Art in MTR" station artworks at Choi Hung and Wan Chai stations. "Art for Everyone @ HKMoA" displayed 100 images of works from the Hong Kong Museum of Art at our heavy rail stations. Throughout the year, we utilised the space in our stations to cultivate artistic appreciation by hosting a number of exhibitions in Central, Sheung Wan and Sai Wan Ho stations.

To promote the importance of social inclusion through the arts, MTR and Arts with the Disabled Association Hong Kong ("ADAHK") organised a non-visual photography workshop in April 2021 for visually impaired persons to take photos of Hong Kong West Kowloon Station ("WEK") that were later exhibited in Central Station. In July, MTR and ADAHK hosted 14 students from the Hong Kong Academy for Performing Arts at WEK, where they wore blindfolds to experience non-visual photography and the perspectives of those with visual impairment. In October, we worked with the Audio Description Association (Hong Kong) to arrange an audio description art tour of WEK for 10 visually impaired persons.

Safety First

Our top priority is the safety of our customers, staff and business partners. By fostering a safety-first culture throughout our operations, we can help to ensure safe and healthy environments in our trains, stations and properties and enhance the accessibility and inclusivity of our services. We clean and disinfect our trains, stations and other facilities regularly, and we require our frontline staff to wear face masks. During the year, we continued to

produce face masks in-house for our employees. We also continued to make COVID-19 testing specimen collection packs and personal protection equipment available to the public at various points throughout our rail network.

Our Corporate Strategic Safety Plan, which has been updated for 2021-2024 under the four-year review cycle, helps us focus our safety efforts across all our business areas and maintain safety performance excellence in support of our growth and global expansion. It sets out the Corporation's safety goals and strategic focus areas, enabling a systematic way of driving continuous safety improvement towards the safety aspirations across all business units, subsidiaries and associates globally. We have also applied a Corporate Safety Management Model with a framework for overseeing safety management and governance across our businesses.

We take a rigorous approach towards the safety of our staff, contractors and customers. To promote our safety-first culture, we held a Corporate Safety Month themed "working together to build a safer future" in June 2021 alongside on-going initiatives to address specific focuses. Another initiative is pursuing our long-term ambition to achieve a "Zero Harm" operating and working environment by prioritising efforts in safety, health and well-being and building a strong preventive culture.

For details on how we enhance customer safety, please refer to the "Hong Kong Transport Operations" section (page 38) of this Annual Report.

Supporting Our Athletes

To honour the Hong Kong athletes who competed at the Tokyo 2020 Olympic and Paralympic Games, MTR offered unlimited free rides for life to medallists and one year of free passes to all participants. Moreover, the Company also supported local sports development by giving 1,200 free Airport Express train tickets to athletes and supporting personnel of the Hong Kong Paralympic Committee & Sports Association for the Physically Disabled for competitions over the next three years, including the Tokyo 2020 Paralympic Games, Hangzhou 2022 Asian Para Games and Paris 2024 Paralympic Games. In addition, we offered 100,000 free domestic single journey rides to the public via MTR Mobile to celebrate Hong Kong's Olympic achievements.

In further recognition of local athletes and their accomplishments, we hosted a photo exhibition titled "Shining at the Tokyo Games" between September and October 2021 at Hong Kong and Olympic stations. The exhibition featured an opening ceremony attended by Hong Kong medallists and athletes who competed in the Tokyo Olympic and Paralympic games.

ADVANCEMENT & OPPORTUNITIES

Youth & Children Programmes

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

Despite the logistical challenges presented by COVID-19, we continued to organise our annual "'Train' for Life's Journeys" programme, which offers students a holistic career and life planning experience to help them set goals for their future development. In addition to the online version held in July 2021, which drew approximately 120 participants, we arranged a smaller-scale, in-person edition in December for around 40 "virtual" alumni from the past two years. The programme featured workshops, community visits and career sharing about various positions within MTR.

As part of our community outreach efforts, we regularly conduct school talks in Hong Kong to enhance students' understanding of rail operations, safety and courteous behaviour as well as the benefits and impacts of railway development and projects to our economy, society and environment. We delivered this programme to over 7,100 students in 2021.

Governance & Policies

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

Our management approach to sustainability comprises a number of policies, including our Corporate Responsibility Policy, Green Procurement Policy, Climate Change Strategy, and Modern Slavery and Human Trafficking Statement. These policies are overseen by the Board's Environmental & Social Responsibility Committee (formerly known as the Corporate Responsibility Committee), which provides strategic guidance and reviews our sustainability practices and performance. Please also refer to the "Environmental & Social Responsibility Committee" section of this Annual Report's "Corporate Governance Report" (page 109) for its principal responsibilities. Our Environmental & Social Responsibility Steering Committee (formerly known as Corporate Responsibility Steering Committee) supports our sustainability efforts by providing direction on responsible business practices and fostering collaboration across all divisions.

Responsible Procurement

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

GREENHOUSE GAS EMISSIONS REDUCTION

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

Carbon Emissions

In alignment with the objectives set out in our Corporate Strategy, we recently completed a carbon reduction study to develop a long-term roadmap towards achieving even more impactful GHG reduction. Following this study, we will be setting science-based reduction targets for 2030 with the long-term goal of achieving carbon neutrality by 2050.

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

To raise public awareness of carbon emissions reduction and promote green transport, the "Carbon Footprint Challenge" was launched on MTR Mobile, which encourages users to reduce emissions by taking MTR rides in exchange for MTR Points that can be redeemed for rewards. As at 30 September 2021, more than 145,000 registered users had participated in the Challenge, saving over 61,000 metric of carbon emissions.

We also introduced a "Carbon Wallet" mobile app whereby users earn points based on actions they take to reduce carbon emissions – such as recycling or filling reusable bottles at drinking water dispensers – and redeem them for green products and/or services from our business partners.

Clean Energy and Energy Efficiency

We are reducing electricity consumption by replacing air conditioning systems in our network with more energy-efficient chillers and trialling solar photovoltaic systems at Hin Keng Station.

Waste Management

We are also active in waste reduction initiatives. In 2021, we participated in the Environmental Protection Department's Reverse Vending Machine ("RVM") pilot scheme, which incentivises people to collect used plastic beverage containers and recycle them in exchange for instant rebates. RVMs were installed at Telford Plaza, Paradise Mall, Admiralty Centre, Maritime Square and The LOHAS.

Green and Low-carbon Designs

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

Green Finance

In 2021, we arranged HK$4.8 billion in green financing to fund a variety of railway-related conservation and energy efficiency projects. Our efforts in this area were recognised by the Hong Kong Quality Assurance Agency, who presented us with the "Outstanding Award for Green and Sustainable Bond Issuer (Transportation Industry) – Largest Single Green Bond" in the Hong Kong Green and Sustainable Finance Award 2021. Details of our sustainable investments are provided in our annual Sustainable Finance Report, which is published on our sustainability website.

VALUE ADDED AND DISTRIBUTION STATEMENT IN 2021

(HK$ MILLION)

Economic Value Generated

Economic Value Generated	HK$ million
Revenue from Hong Kong Transport Operations	13,177
Revenue from Hong Kong Station Commercial Businesses	3,208
Revenue from Hong Kong Property Rental and Management Businesses	5,036
Revenue from Mainland China and International Subsidiaries	25,398
Revenue from Other Businesses[1]	1,351
Hong Kong Property Development Profit from Share of Surplus and Interest in Unsold Properties[2]	11,104

Total: 59,274

Economic Value Distributed

Economic Value Distributed	Recipient	HK$ million	
Staff Costs[3]	Employees	15,537	56,105
Maintenance, Renewal and Upgrade Expenditure on Existing Hong Kong Railway System	Existing Hong Kong Railway System	10,893	
Other Operating Costs[4]	Suppliers & Business Partners	18,307	
Fixed and Variable Annual Payments	KCRC	1,010	
Interest & Finance Costs[5]	Lenders	557	
Taxes[6]	Governments	2,178	
Ordinary Dividends	HKSAR Government	5,700	
	Other Shareholders	1,908	
Community Investment[7]	Community	15	
Economic Value Retained for Reinvestment[8]			3,169

Total: 59,274

Notes:

1 *Includes share of profit of associates and joint ventures.*

2 *Before taking into account staff costs of HK$7 million.*

3 *Excludes staff costs related to Hong Kong railway system maintenance of HK$2,442 million, capitalised for asset creation of HK$1,633 million and recoverable of HK$576 million.*

4 *For simplicity reason, other operating costs include interest income, netted with non-controlling interests. Excludes operating costs related to Hong Kong railway system maintenance of HK$2,547 million.*

5 *Excludes interest expenses capitalised for asset creation of HK$322 million.*

6 *Represents current tax and excludes deferred tax for the year.*

7 *Includes donations, sponsorships and other community engagement contributions, and excludes in-kind donations of HK$32 million given. In addition, there were (i) ongoing fare concessions and promotions of HK$2,267 million, (ii) MTR's share of additional fare promotions offered to our Hong Kong passengers (including 20% rebate on every Octopus trip, 5% fare reduction & rebate and discounts on MTR City Saver and Monthly Pass Extras), and (iii) rental concessions granted to station and mall tenants that have not been accounted for in this amount.*

8 *Economic value retained for reinvestment to generate future economic values. This represents underlying business profit attributable to shareholders of the Company (before depreciation, amortisation and deferred tax) for the year retained, after the amounts distributed to our stakeholders and invested in asset maintenance, renewal and upgrade of our Hong Kong railway system.*

HUMAN RESOURCES

5.6%	5.2	50,000+
Voluntary Staff Turnover Rate in Hong Kong	Average Training Days per Employee in Hong Kong	Staff Worldwide

Our people are the engines that power the Company. We continue to invest in engaging and developing our staff, building a progressive workplace and providing equal employment opportunities. These efforts and commitments were recognised in several HR awards received during the year.

As at 31 December 2021, the Company together 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.

RECRUITMENT, TALENT MANAGEMENT AND RETENTION

We place great emphasis on employee engagement, motivation, as well as talent acquisition and development to attract and retain our staff. In 2021, the voluntary staff turnover rate in Hong Kong was 5.6%.

To fulfil our purpose to Keep Cities Moving, it is more important than ever for the Company, as a responsible employer, to set top priority in protecting jobs of our staff and ensuring business sustainability in the midst of the COVID-19 crisis. We continued to adopt a prudent resourcing approach to meet our operational needs while achieving cost effectiveness. We provide competitive pay and benefits, short and long-term incentive schemes, and a broad range of career development opportunities under our total reward framework. We conduct regular reviews to maintain market competitiveness of our pay and benefits for staff. We also have a robust performance management system in place to recognise and reward our staff through a performance-based pay review mechanism as well as various staff motivational schemes and awards.

We strive to achieve long-term business growth and sustainable development by identifying and nurturing talents at different levels. The MTR Leadership Competency Framework was revamped and enhanced according to the guidelines set out in our new Corporate Strategy to strengthen our human capital and build a leadership foundation for the future. This year, we also introduced a new Management Potential Development Programme that includes a robust talent assessment process along with personalised development plans involving training, mentoring and cross-unit job rotation to groom high potential supervisors.

To offer rewarding career opportunities for the youth and build a long-term talent pipeline, we continued our graduate recruitment during the pandemic through a variety of virtual means to organise recruitment talks, group discussions and interviews. This year, we welcomed 55 high-calibre graduates joining the Company's various graduate development programmes. 69 apprentices and technician associates and 35 graduate engineers were also recruited to join the Apprenticeship Scheme and the Graduate Engineer Scheme for developing young talents in the railway industry.

STAFF MOTIVATION AND ENGAGEMENT

To foster a family-friendly and progressive work environment, we piloted a work-from-home arrangement for our office staff to complement the staggered working hours policy introduced in 2020, and adopted a flexible dress code for non-uniformed staff. We remain committed to safeguarding the health, safety and emotional wellness of our staff. To support our staff in building resilience to overcome the pandemic, we launched an emotional wellness portal to provide instant access to a range of resources including an emotional self-assessment questionnaire, wellness videos, e-books, and counselling service information.

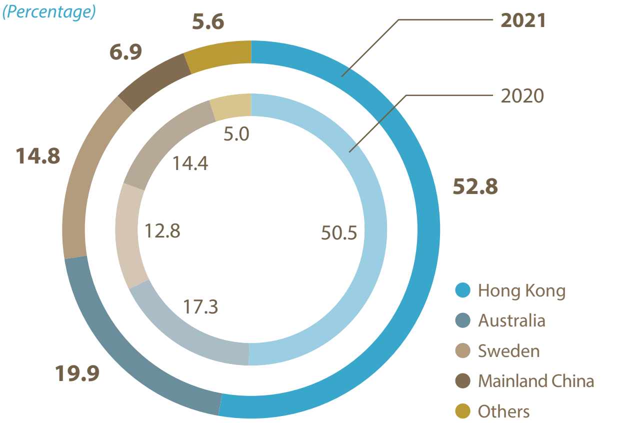
To fight the pandemic together with the community, the Company was the first public transport operator to participate in the Government's outreach COVID-19 vaccination services and arranged on-site vaccination at Kowloon Bay Depot for our staff and their dependants. To encourage more staff to be vaccinated and ensure health protection, one additional day of paid Well-being Leave was provided to our staff who had completed 2 doses of COVID-19 vaccine in 2021 and a series of virtual health talks were also organised to provide our staff with medical information. With various encouragement measures, over 90% of the specified groups of staff with interactions with external parties got vaccinated by end of 2021.

The 2021 MTR Grand Awards for Outstanding Contribution and Long Service Awards Presentation Ceremony was organised in November to recognise our staff with exemplary performance and loyal contributions to the Company. 44 awardees received the 40 Years' Service Award which was record high.

In early December, we launched the 2021 Employee Engagement Survey to solicit feedback from staff in Hong Kong and managers of our wholly owned subsidiaries with the overall survey response rate of nearly 80%. Action plan will be formulated and executed in 2022 to address the needs identified from the survey results to enhance the level of employee engagement.

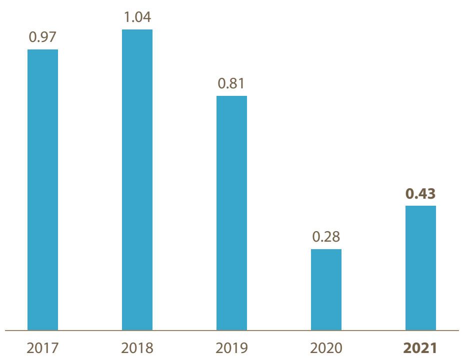
Staff Distribution by Geographical Location

(Percentage)



Staff Productivity – Earnings Per Employee*

(HK$ million)



* *Hong Kong businesses excluding property development*

LISTENING AND RESPONDING TO STAFF

Our dedicated efforts to connect and respond to our staff resulted in an engaged workforce. To assess staff's awareness and understanding of our new Corporate Strategy, we conducted quarterly "Transforming the Future" pulse surveys which reflected positive experience and feedback on the transformation. We also launched dedicated communication initiatives including "Transformation Champions" and "Conversations with Directors" to help further enhance our staff's understanding of our Corporate Strategy.

We enhanced our internal communication platform "MTRconnects" by introducing new digital features to connect our staff around the world with corporate updates and stories. Various communications channels are also in place, such as CEO Messages & Blog posts, videos, communication meetings and forums, focus groups and site visits to foster participative communication. To maintain timely business communications during the pandemic, we organised nine virtual forums and meetings for executive managers and managers around the world in 2021.

Our Staff Consultation Mechanism continues to enable Management to keep close connection with over 1,000 staff representatives directly elected by staff, and to discuss matters of common concerns. The Company held quarterly meetings for the Staff Consultative Council and 45 Joint Consultative Committees, and the discussion achievements are published for regular update to our staff. 12 communication sessions with staff representatives and unions were organised during the year to update our staff on the latest developments of our business, particularly railway operations and anti-pandemic measures to address their concerns.

A CULTURE OF CONTINUOUS LEARNING

Quality learning and development is one of the most important ways we can help our staff reach their potential and ensure the long-term success of the Company. In 2021, we offered 7,360 training classes in Hong Kong averaging 5.2 training days per staff. In addition, presenting our staff an alternative way of learning, a total of 10,922 staff participated in 273 different E-learning courses during the period resulting in 48,280 hours of learning experience.

We continued to deliver our learning and training initiatives through adopting different modes and utilising technology in response to the pandemic to uphold the quality of training, including virtual workshops, webinars, computer-based training and virtual reality training in addition to face-to-face setting. To nurture a continuous learning culture in the Company, our Learning Management System provides a one-stop portal for our staff to access valuable technical and management self-learning resources anywhere and anytime. Simulators and VR facilities were installed in workplaces to facilitate flexible on-the-job skill practices.

Our Corporate Development Ladder Programme provides our newly promoted and newly joined managers and supervisors with a structured programme to develop leadership and management skills. In 2021, we launched a six-month "Operations Transformation Leadership Development Programme" for more than 150 high-potential leaders to enhance their leadership capabilities, strengthen their business acumens and nurture innovative mind-sets.

DRIVING WORK IMPROVEMENT AND DIGITAL WORKPLACE

The Company's Work Improvement Team ("WIT") programme plays a prominent role in driving innovation and creating a spirit of betterment. During the year, we held more than 75 WIT classes and organised 598 projects.

We launched a new self-service portal, "MyHR" online platform in June 2021 to enable our staff to conveniently search for HR and Administration services and relevant information, submit e-forms or enquiries and track case status anytime and anywhere.

MTR ACADEMY

The MTR Academy ("MTRA" or "the Academy") is regarded as one of the world's leading institutions for railway management and engineering, training and developing the next generation of talent to help lead the industry into the future. It also serves as a vehicle for the Company to export its brand internationally. MTRA courses, including its highly regarded Executive Certificate Programmes, are offered in Hong Kong, Mainland China and other Belt and Road countries.

88 students were admitted for the 2021 academic year, nearly half of whom are full-time students. A total of 86 graduates were presented with Advanced Diploma and Diploma awards during the year.

In 2021, MTRA launched a pilot scheme for work placement that was well received by full-time students in the Academy's accreditation programme. The scheme enables students to gain practical experience by working part-time during their period of study. MTRA also introduced new articulation pathways to higher education within local tertiary institutions to help graduates further their studies. To share knowledge and develop local industry talent, MTRA also developed and launched 40% more Continuing Professional Development courses through collaborations with professional bodies and consultants.

FUTURE PLANS

Going forward, MTRA intends to advance the use of applied research and development by partnering with academic research institutions. To promote vocational and professional education and training, a competition for local students aged 10 to 18 was organised in October 2021 by MTRA and a coalition of corporate academies collectively known as the Corporate Tech Academy Network; additional events such as this will be considered in future. Meanwhile, the Academy will continue to further partnership efforts in the Greater Bay Area to support the Belt and Road Initiative.

FINANCIAL REVIEW

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

HK$11,151 million
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.

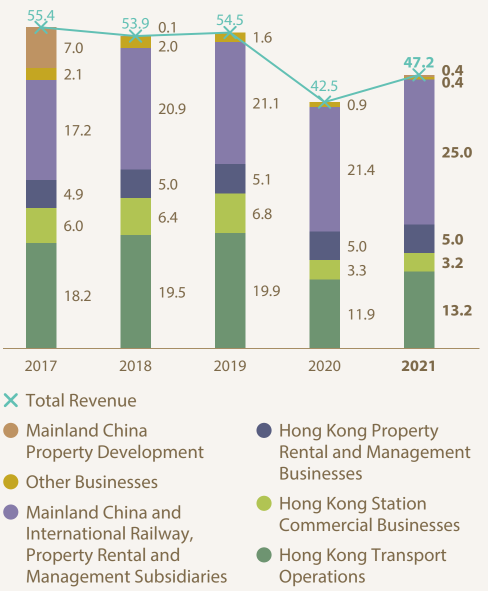
Total Revenue

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.

Total Revenue

(HK$ billion)



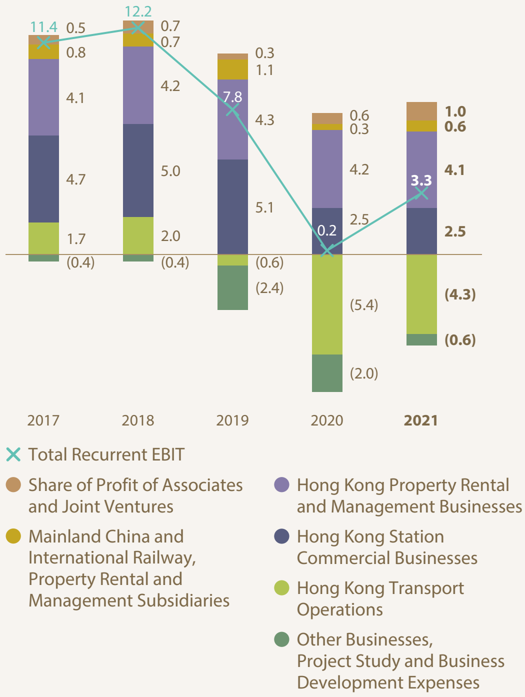
Recurrent Business Profit

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

Total Recurrent EBIT*

(HK$ billion)



* *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.

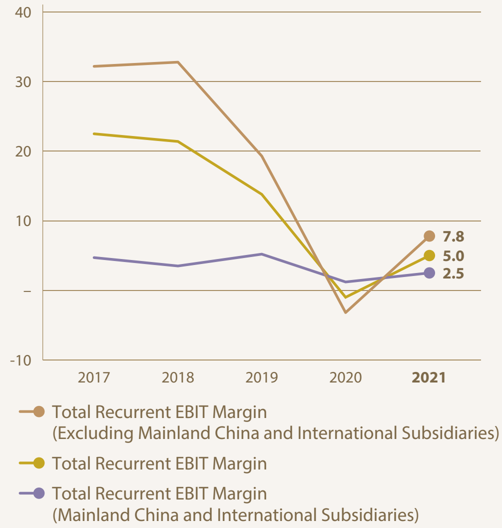
The drop in 2019 was due to the adverse impact of the Public Order Events (POE) in Hong Kong, as well as the one-off provisions made for the Hung Hom incidents of the SCL project in Hong Kong and the South Western Railway franchise agreement in the United Kingdom.

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

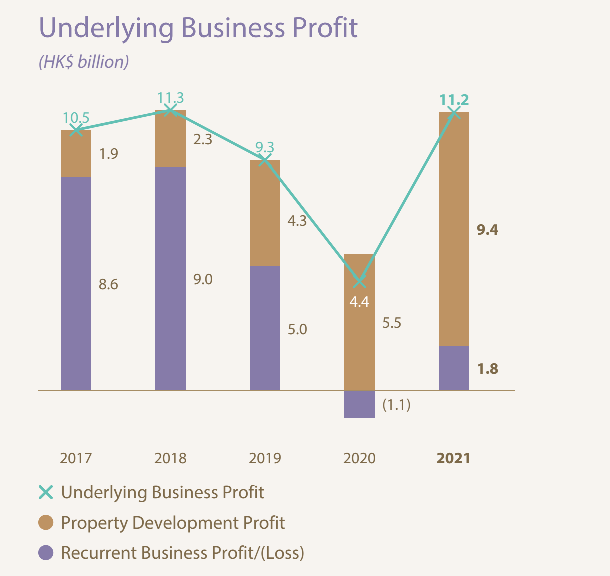
Income tax for recurrent businesses was HK$317 million, an increase of 33.8% from 2020 due to improved financial performance.

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

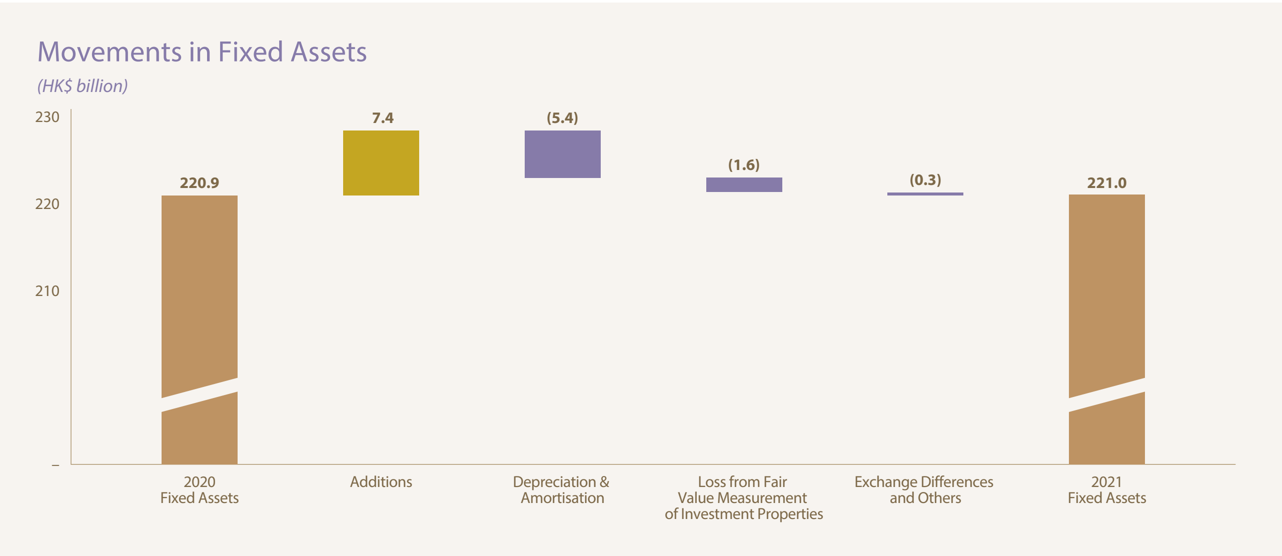
Taking into account the Group's recurrent businesses, property development businesses and loss from fair value measurement of investment properties, the Group reported a net profit attributable to shareholders of the Company of HK$9,552 million for the year ended 31 December 2021, compared to a net loss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

STATEMENT OF FINANCIAL POSITION

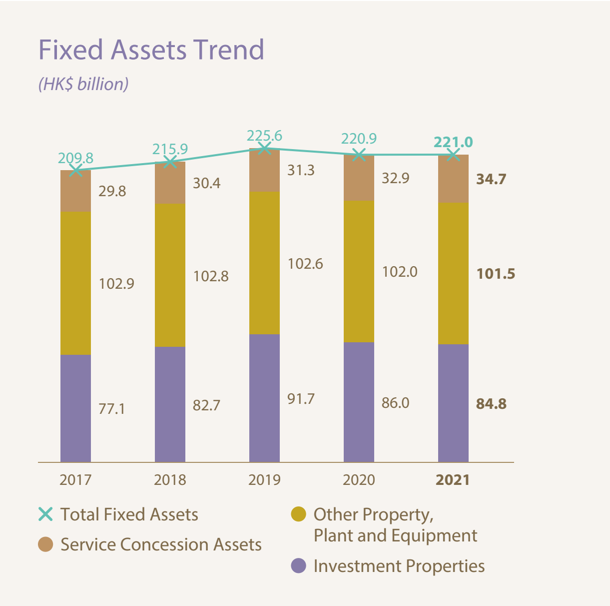
HK$ million	As at 31 December 2021	As at 31 December 2020	Inc./(Dec.) HK$ million	Inc./(Dec.) %
Fixed Assets	**221,032**	220,932	100	0.0
Property Development in Progress	**11,215**	11,942	(727)	(6.1)
Interests in Associates and Joint Ventures	**12,442**	11,592	850	7.3
Debtors and Other Receivables	**14,797**	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.

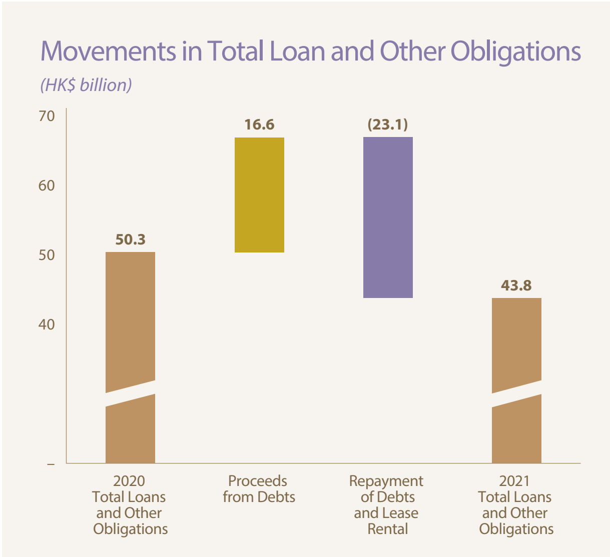


The graph below shows fixed assets trend over the past five years.



Total Loans and Other Obligations

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



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.

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

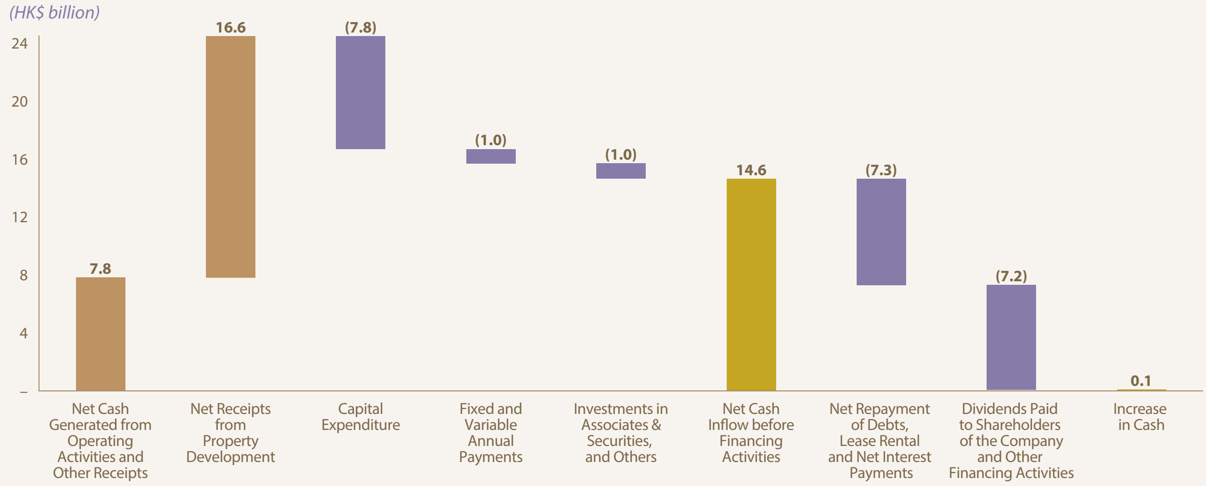
Total equity increased by HK$3,056 million. This was mainly due to the underlying business profit recorded for the year, and partly offset by the loss from fair value measurement of investment properties and the payments of the 2020 final and 2021 interim ordinary dividends during the year.

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

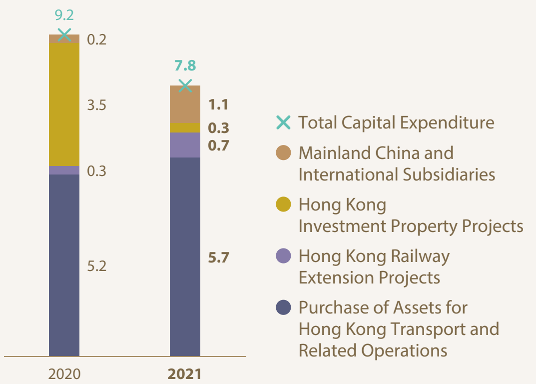
The net receipts from property development of HK$16,642 million comprised mainly cash receipts from THE SOUTHSIDE, LOHAS Park and Ho Man Tin Station packages.

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

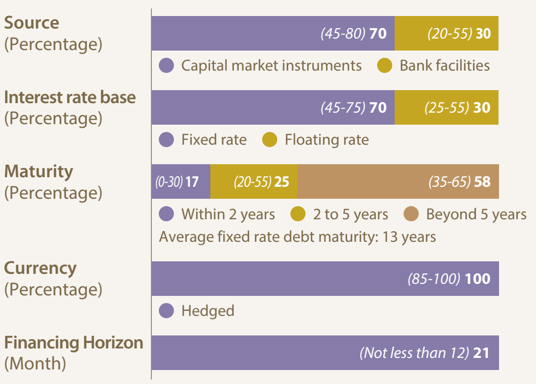
The Group paid dividends of HK$7,165 million (2020: HK$6,808 million) in cash, being the 2020 final dividend of HK$0.98 per share and the 2021 interim dividend of HK$0.25 per share.

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.

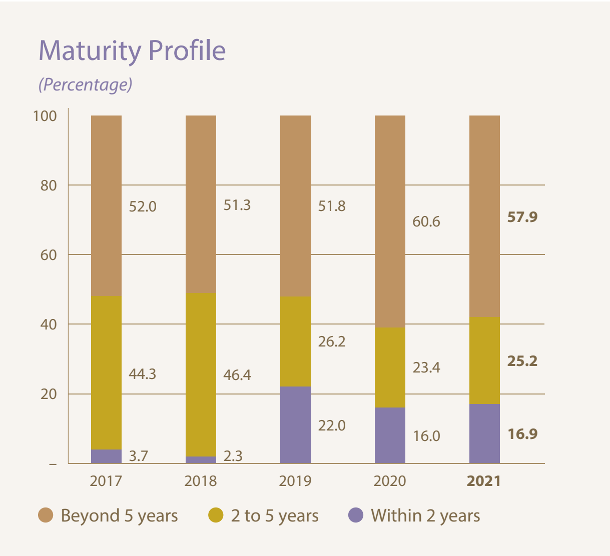
The Company has taken advantage of low interest rates over the last few years to hedge a majority proportion of its borrowings in the form of fixed interest rates. As at the end of 2021, the proportion of fixed rate borrowings of the Company stood at 70%, which will help mitigate the impact of interest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

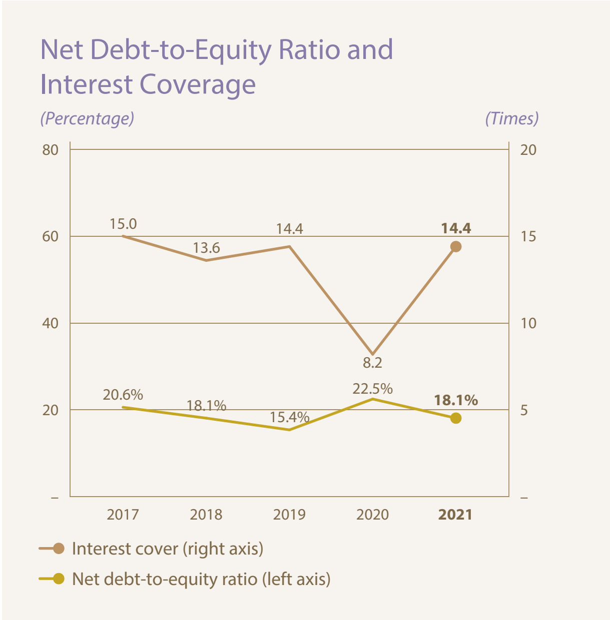
The graph below shows the maturity profiles of the Company's interest-bearing borrowings at year-end 2017-2021. The spread of the maturities of the Company's borrowings helps diversify the refinancing risk of the Company.



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.

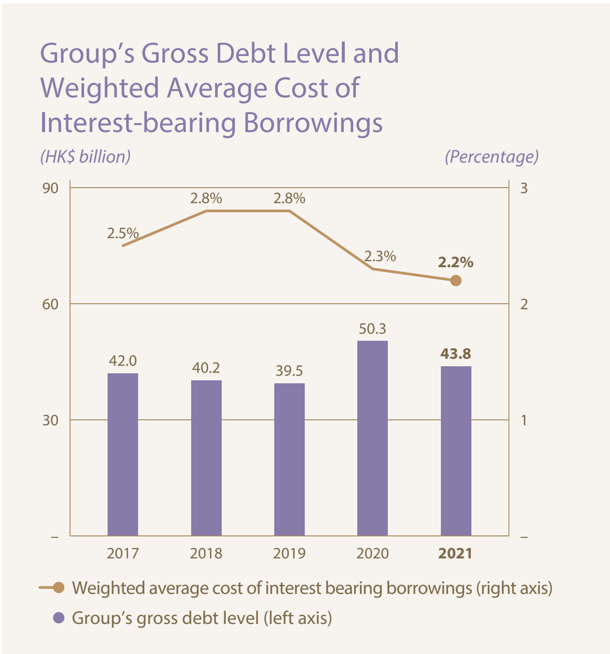
The graph below shows the level of leverage and our ability to meet interest payment obligations over the past five years.



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

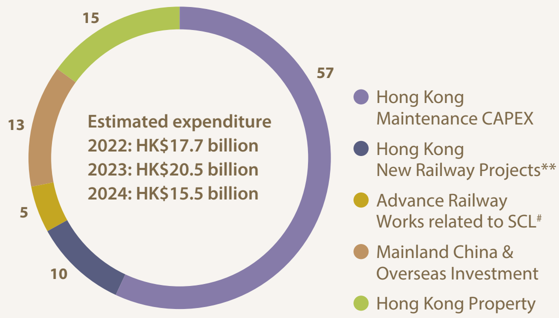
The Group's capital expenditure and investment can be categorised into the followings: Hong Kong railway projects (further classified into maintenance work for existing railways, SCL advance work and new projects), Hong Kong property investment and development, and Mainland China and overseas investments. 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*

TEN-YEAR STATISTICS

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Financial										
Consolidated Profit and Loss *(in HK$ million)*										
Total revenue										
– Hong Kong transport services										
– Hong Kong transport operations	**13,177**	11,896	19,938	19,490	18,201	17,655	16,916	16,223	15,166	14,523
– Hong Kong station commercial businesses	**3,208**	3,269	6,799	6,458	5,975	5,544	5,380	4,963	4,588	3,680
– Hong Kong property rental and management businesses	**5,036**	5,054	5,137	5,055	4,900	4,741	4,533	4,190	3,778	3,401
– Mainland China and international railway, property rental and management subsidiaries	**25,045**	21,428	21,085	20,877	17,194	13,562	12,582	12,627	13,246	12,786
– Other businesses	**383**	894	1,545	1,990	2,174	2,339	2,290	2,153	1,929	1,349
– Recurrent businesses	**46,849**	42,541	54,504	53,870	48,444	43,841	41,701	40,156	38,707	35,739
– Mainland China property development	**353**	–	–	60	6,996	1,348	–	–	–	–
– Total	**47,202**	42,541	54,504	53,930	55,440	45,189	41,701	40,156	38,707	35,739
Total EBITDA										
– Recurrent businesses	**8,019**	5,194	15,351	18,843	17,677	16,947	16,260	15,478	14,399	12,895
– Hong Kong property development	**11,097**	6,491	4,496	2,574	1,097	228	2,891	4,216	1,352	3,238
– Mainland China property development	**129**	(13)	(25)	25	2,314	366	(140)	(55)	–	–
– Total	**19,245**	11,672	19,822	21,442	21,088	17,541	19,011	19,639	15,751	16,133
Depreciation and amortisation	**(5,430)**	(5,365)	(5,237)	(4,985)	(4,855)	(4,127)	(3,849)	(3,485)	(3,372)	(3,208)
Variable annual payment	**(260)**	(238)	(2,583)	(2,305)	(1,933)	(1,787)	(1,649)	(1,472)	(1,247)	(883)
Total EBIT										
– Recurrent business EBIT										
EBIT										
Hong Kong transport services										
– Hong Kong transport operations	**(4,262)**	(5,408)	(591)	1,985	1,656	2,572	2,493	2,710	2,716	2,881
– Hong Kong station commercial businesses	**2,488**	2,502	5,122	5,025	4,722	4,362	4,230	3,927	3,668	2,969
Hong Kong property rental and management businesses	**4,048**	4,185	4,264	4,225	4,082	3,912	3,650	3,427	3,092	2,764
Mainland China and international railway, property rental and management subsidiaries	**622**	261	1,089	722	814	490	640	782	704	520
Other businesses	**(255)**	(1,670)	(2,077)	(81)	(53)	58	53	129	86	(7)
Project studies and business development expenses	**(312)**	(279)	(276)	(323)	(332)	(361)	(304)	(454)	(486)	(323)
Share of profit of associates and joint ventures	**968**	605	288	658	494	537	361	121	158	456
Sub-total	**3,297**	196	7,819	12,211	11,383	11,570	11,123	10,642	9,938	9,260
– Property development business EBIT	**11,226**	6,478	4,471	2,599	3,411	592	2,751	4,161	1,352	3,238
– Total	**14,523**	6,674	12,290	14,810	14,794	12,162	13,874	14,803	11,290	12,498
(Loss)/gain from fair value measurement of investment properties	**(1,616)**	(9,190)	2,583	4,745	6,314	891	2,100	4,035	4,469	3,757
Profit/(loss) attributable to shareholders of the Company arising from:										
– Recurrent businesses	**1,808**	(1,126)	4,980	9,020	8,580	8,916	8,565	8,024	7,437	6,914
– Property development businesses	**9,343**	5,507	4,369	2,243	1,935	447	2,329	3,547	1,119	2,704
– Underlying businesses	**11,151**	4,381	9,349	11,263	10,515	9,363	10,894	11,571	8,556	9,618
– Fair value measurement of investment properties	**(1,599)**	(9,190)	2,583	4,745	6,314	891	2,100	4,035	4,469	3,757
– Total	**9,552**	(4,809)	11,932	16,008	16,829	10,254	12,994	15,606	13,025	13,375
Profit/(loss) for the year	**9,679**	(4,821)	12,092	16,156	16,885	10,348	13,138	15,797	13,208	13,514
Share Information										
Basic earnings/(loss) per share *(in HK$)*	**1.55**	(0.78)	1.94	2.64	2.83	1.74	2.22	2.69	2.25	2.31
Basic earnings per share arising from underlying businesses *(in HK$)*	**1.80**	0.71	1.52	1.86	1.77	1.59	1.87	1.99	1.48	1.66
Ordinary dividend per share *(in HK$)*	**1.27**	1.23	1.23	1.20	1.12	1.07	1.06	1.05	0.92	0.79
Dividend payout ratio (based on underlying business profit) *(in %)*	**71**	173	81	65	63	67	57	53	62	48
Ordinary dividend proposed and declared *(in HK$ million)*	**7,865**	7,602	7,574	7,359	6,728	6,317	6,207	6,116	5,335	4,575
Share price at 31 December *(in HK$)*	**41.85**	43.35	46.05	41.20	45.80	37.70	38.40	31.80	29.35	30.50
Market capitalisation at 31 December *(in HK$ million)*	**259,196**	267,943	283,574	252,947	275,156	222,629	224,956	185,284	170,187	176,692
Consolidated Financial Position *(in HK$ million)*										
Total assets	**292,082**	290,574	289,214	274,687	263,768	257,340	241,103	227,152	215,823	206,687
Loans, other obligations and bank overdrafts	**43,752**	50,340	39,456	40,205	42,043	39,939	20,811	20,507	24,511	23,577
Obligations under service concession	**10,231**	10,295	10,350	10,409	10,470	10,507	10,564	10,614	10,658	10,690
Total equity attributable to shareholders of the Company	**179,714**	176,788	186,606	180,447	166,304	149,461	170,055	163,325	152,557	142,904
Financial Ratios										
EBITDA margin◊ *(in %)*	**17.3**	12.2	28.1	35.0	36.1	38.3	38.7	38.4	37.2	36.1
EBITDA margin◊ (excluding Mainland China and international subsidiaries) *(in %)*	**32.7**	22.1	42.0	54.5	53.5	54.0	53.3	53.1	53.4	53.6
EBIT margin$^{\varphi}$ *(in %)*	**5.2**	(1.0)	13.8	21.5	23.8	25.2	25.5	26.1	25.3	24.6
EBIT margin$^{\varphi}$ (excluding Mainland China and international subsidiaries) *(in %)*	**7.8**	(3.2)	19.3	32.8	32.2	34.8	34.8	35.4	35.6	36.1
Net debt-to-equity ratio *(in %)*	**18.1**	22.5	15.4	18.1	20.6	20.2	11.3	7.6	11.8	11.0
Return on average equity attributable to shareholders of the Company arising from underlying businesses *(in %)*	**6.3**	2.4	5.1	6.5	6.7	5.9	6.5	7.3	5.8	7.0
Interest cover *(times)* **	**14.4**	8.2	14.4	13.6	15.0	12.6	14.4	15.2	11.5	13.0

◊ *Excluding Hong Kong property development profit from share of surplus and interest in unsold properties.*

φ *Excluding Hong Kong property development profit from share of surplus and interest in unsold properties, and share of profit of associates and joint ventures.*

** *Excluding fair value measurement of investment properties*

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary services	**268,050**	268,492	301,552	308,742	301,541	287,828	284,487	273,771	269,141	260,890
Airport Express	**10,165**	12,631	22,971	23,190	23,202	23,276	23,242	23,232	23,216	23,134
Light Rail	**10,245**	10,385	10,592	11,139	11,145	11,152	11,034	10,728	10,554	10,453
Total number of passengers *(thousand)*										
Domestic Service	**1,421,737**	1,145,035	1,568,196	1,669,973	1,637,898	1,586,522	1,577,457	1,547,757	1,474,659	1,431,040
Cross-boundary Service	**486**	7,647	104,183	117,448	112,549	113,274	114,241	113,049	111,362	109,707
High Speed Rail	**–**	1,033	16,923	5,302[@]	–	–	–	–	–	–
Airport Express	**2,150**	3,070	15,764	17,710	16,621	16,133	15,725	14,881	13,665	12,695
Light Rail	**141,581**	111,865	155,885	179,411	178,502	178,709	176,149	174,199	171,652	167,210
Bus	**50,380**	42,077	51,484	51,025	50,744	50,413	50,537	50,404	47,738	45,962
Intercity	**–**	103	1,880	3,630	3,698	3,739	4,080	4,348	4,324	4,028
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,189**	3,406	4,658	4,862	4,772	4,608	4,577	4,490	4,297	4,148
Cross-boundary Service – daily average	**1**	21	285	322	308	309	313	310	305	300
High Speed Rail – daily average	**–**	36[##]	46	53[#]	–	–	–	–	–	–
Airport Express – daily average	**6**	8	43	49	46	44	43	41	37	35
Light Rail – weekday average	**403**	317	448	506	503	500	493	487	482	466
Bus – weekday average	**145**	121	151	147	146	144	145	144	137	131
Intercity – daily average	**–**	4[##]	5	10	10	10	11	12	12	11
Average passenger km travelled										
Domestic and Cross-boundary services	**10.5**	10.5	10.6	10.8	10.8	10.9	11.0	11.0	11.0	10.9
Airport Express	**23.7**	25.8	28.2	28.3	28.5	28.4	28.4	28.6	29.0	29.0
Light Rail	**2.7**	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8
Bus	**4.5**	4.1	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary services	**56**	45	59	62	63	64	65	67	65	65
Airport Express	**5**	6	19	22	20	20	19	18	17	16
Light Rail	**37**	30	40	44	44	44	44	45	45	45
Proportion of franchised public transport boardings *(%)*	**47.3**	45.3	47.4	49.0[&]	49.1	48.4	48.5	48.1	46.9	46.4
HK$ per car-km operated *(Hong Kong Transport Operations*)*										
Total revenue	**40.0**	35.6	51.7	53.4	52.5	53.0	51.3	51.0	48.4	47.6
Operating costs	**34.4**	33.3	33.0	28.2	28.5	27.7	27.2	26.8	24.9	24.2
Operating profit	**5.6**	2.3	18.7	25.2	24.0	25.3	24.1	24.2	23.5	23.4
HK$ per passenger carried *(Hong Kong Transport Operations*)*										
Total revenue	**7.31**	8.11	9.40	9.26	9.10	9.06	8.73	8.52	8.31	8.20
Operating costs	**6.28**	7.60	5.99	4.89	4.93	4.73	4.63	4.47	4.27	4.18
Operating profit	**1.03**	0.51	3.41	4.37	4.17	4.33	4.10	4.05	4.04	4.02
Safety Performance										
Domestic Service, Cross-boundary Service and Airport Express										
Number of reportable events^	**759**	656	1,164	1,056	1,148	1,134	1,246	1,327	1,408	1,761
Reportable events per million passengers carried^	**0.53**	0.57	0.69	0.58	0.65	0.66	0.73	0.79	0.88	1.13
Number of staff and contractors' staff accidents∆	**56**	51	81	50	46	61	64	57	67	58
Light Rail										
Number of reportable events^	**62**	80	163	87	104	191	157	122	118	151
Reportable events per million passengers carried^	**0.44**	0.72	1.05	0.48	0.58	1.07	0.89	0.70	0.69	0.90
Number of staff and contractors' staff accidents∆	**5**	10	8	2	5	8	6	4	4	2
Employees										
Hong Kong										
Corporate management and support departments	**1,923**	1,852	1,899	1,932	1,882	1,837	1,792	1,756	1,676	1,600
Station commercial businesses	**188**	224	234	204	191	192	182	170	158	148
Operations	**11,688**	11,983	12,211	11,948	11,591	11,349	10,891	10,404	10,033	9,460
Projects	**1,335**	1,426	1,531	1,711	2,144	2,615	2,684	2,764	2,804	2,495
Property and other businesses	**1,528**	1,548	1,549	1,500	1,440	1,416	1,384	1,350	1,305	1,273
Mainland China and international businesses	**201**	255	318	331	276	230	194	180	182	224
Outside of Hong Kong										
Employees outside of Hong Kong	**15,105**	16,921	16,521	14,270	10,781	9,866	8,157	7,530	7,078	6,955
Total	**31,968**	34,209	34,263	31,896	28,305	27,505	25,284	24,154	23,236	22,155

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

Average of 23 September 2018 to 31 December 2018.

Average of 1 to 29 January 2020.

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

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

^ *Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries), that are reportable to the Secretary for Transport and Housing and the Director of the Electrical and Mechanical Services Department, Government of the Hong Kong SAR under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.*

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

INVESTOR RELATIONS

MTR has been participating in international capital markets for more than 40 years. Over this time, we have developed a reputation as a leader in investor relations with high standards of corporate governance and disclosure. We believe in enhancing shareholder value through clear, transparent and proactive communication of our strategies, business development and future, and we prioritise the regular engagement of institutional and retail investors.

COMMUNICATING WITH INVESTORS

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

MTR management makes every effort to ensure that investors have a thorough understanding of the Company's business. In 2021, we held 186 meetings with institutional investors and analysts globally. Many of these meetings were held via online conferencing to maintain social distancing during the pandemic.

The Company's Annual General Meeting ("AGM") is one of its principal channels of communication with shareholders. Further details on the 2021 AGM are set out in the "Annual General Meeting" section of the "Corporate Governance Report" on pages 129 to 130 of this Annual Report.

ACCESS TO INFORMATION

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

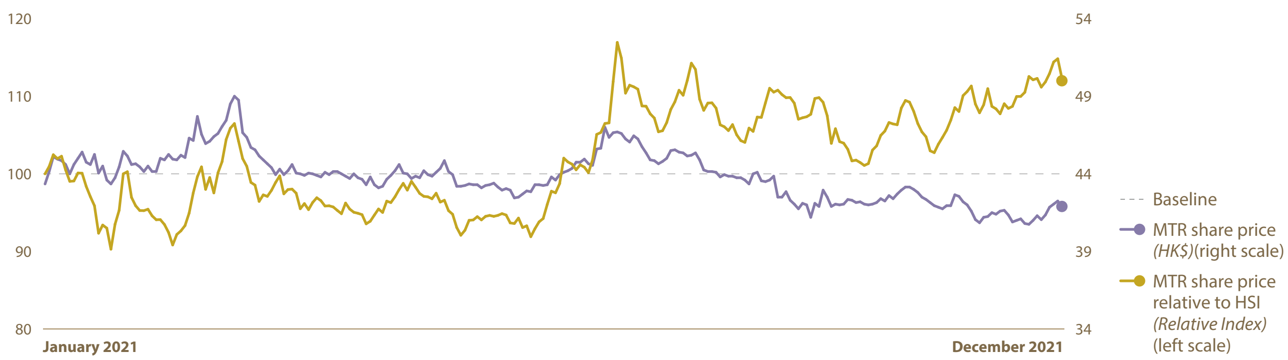
In addition to the shareholder services offered by Computershare, our dedicated hotline answered approximately 32,000 enquiries from individual shareholders in 2021.

INDEX LISTING AND RECOGNITIONS

The Company's shares have been listed on the Stock Exchange of Hong Kong since 2000, and it has been included as a Hang Seng Index constituent stock since 2001.

Our Annual Report achieves considerable recognition each year for presenting a clear picture of the Company's performance and strategy. These are listed in the "Key Awards" section on page 9 of this Annual Report.

SHARE PRICE PERFORMANCE



FINANCIAL CALENDAR 2022

Announcement of 2021 annual results	10 March
Annual General Meeting	25 May
Last day to register for 2021 final dividend	30 May
Book closure period	31 May to 6 June
2021 final dividend payment date	19 July
Announcement of 2022 interim results	August
2022 interim dividend payment date	October
Financial year end	31 December

DIVIDEND INFORMATION

Dividend per Share

	(in HK$)
2020 Total Ordinary Dividend	1.23
2021 Interim Ordinary Dividend	0.25
2021 Final Ordinary Dividend	1.02

Dividend history can be found in the "Ten-Year Statistics" section on page 98 of this Annual Report and our corporate website.

Dividend Policy

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

SHAREHOLDINGS AS AT 31 DECEMBER 2021

Ordinary Shares

Shares outstanding	6,193,462,514 shares
Hong Kong SAR Government Shareholding	4,634,173,932 shares (74.82%)
Free float	1,559,288,582 shares (25.18%)

Market Capitalisation

(as at 31 December 2021)	HK$ 259,196 million

SHARE INFORMATION

Stock Codes

Ordinary Shares

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

CONTACTS

Shareholder Services

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

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

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

Shareholder Enquiries

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

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

Investor Relations

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

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

Email: investor@mtr.com.hk

Annual Report 2021

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

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

If you are not a shareholder, please write to:
Corporate Affairs Division, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong

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

Principal Place of Business and Registered Office

MTR Corporation Limited, incorporated and domiciled in Hong Kong.
MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong
Telephone: (852) 2993 2111
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CORPORATE GOVERNANCE REPORT

Strong governance is critical for the Company in achieving its vision and fulfilling its purpose, and doing so in a way that delivers long term sustainable value for all of its stakeholders. This Report describes the corporate governance best practices that the Company has adopted and highlights how the Company has applied the principles of the code provisions in force at the material time as set out in Appendix 14 (Corporate Governance Code and Corporate Governance Report) to the Listing Rules.

With effect from 1 January 2022, the structure of Appendix 14 to the Listing Rules has been updated and renamed as the Corporate Governance Code. The provisions of the updated Corporate Governance Code are applicable to financial years commencing on or after 1 January 2022 and so will be fully complied with in the Company's 2022 Annual Report. However, as the Company already complies with many of the new requirements, the information included in this Report has been enhanced accordingly.

The Board has the overall responsibility for effective corporate governance and for ensuring that the Company's governance framework (which is described in this Report) enables it to oversee and address environmental and social issues that are material to the operations and businesses of the Company. The recently renamed Environmental & Social Responsibility Committee has strategic oversight of the Company's environmental and social strategy and is also responsible for tracking performance against the Company's environmental and social commitments and reporting to the Board on these issues. For details of its principal responsibilities and the work performed during the year, please refer to page 109 of this Report.

To keep its stakeholders abreast of the Company's initiatives and performance in the environmental and social arenas, a separate Sustainability Report is published on an annual basis. The Company has followed the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules and has made reference to various international reporting standards and guidelines when preparing the Sustainability Report. The Company's Sustainability Report covering the period from 1 January to 31 December 2021 is available together with this Annual Report on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.

The Company also issues an annual Sustainable Finance Report, which is available on the Company's website (www.mtr.com.hk), and responds to CDP on climate-related risks, opportunities and disclosures.

CORPORATE STRATEGY

The Company's vision is to be an internationally-recognised company that connects and grows communities with caring, innovative and sustainable services. To safeguard the long-term prospects of the Company, a new Corporate Strategy, "Transforming the Future", which was adopted in mid-2020, establishes clear business priorities and social and environmental goals with a view to maintaining competitiveness and driving the sustainability of the Company's businesses, as well as creating healthy, long-term symbiotic relationships with the communities where the Company operates. With a clearly defined purpose of "keeping cities moving", the Corporate Strategy defines a more fit-for-future organisation with a strengthened Hong Kong core, steady growth in Mainland China and internationally and powerful new growth engines – three strategic pillars so that the Company can stay competitive in a fast-changing business environment.

The new Corporate Strategy is underpinned by a set of values, which help to provide all staff with a clear indication of what is expected from them, from both a performance and a competency perspective:

- Excellent service – To anticipate, listen and respond to customer needs and provide a safe, effective and caring service.
- Mutual respect – To work internally and externally in a collaborative environment based on trust, joint commitment and respect.
- Value creation – To create profit and community goodwill through growth, effective execution, continuous improvement and innovation.
- Enterprising spirit – To question the status quo, proactively seek improvement and take ownership to overcome obstacles.

Further guidance is provided to staff in the Company's Code of Conduct, which is updated regularly, and in the leadership competency framework which forms the basis of the Company's performance management system.

During the year ended 31 December 2021, the Board has regularly reviewed the progress made in the implementation of the new Corporate Strategy and the associated enablers, including a new management organisation designed to clarify accountability for the delivery of the Corporate Strategy and strengthen the Company's internal control and risk management framework.

The Company values all feedback received, whether through more formal channels or through interactive communication sessions carried out by Members of the Executive Directorate, who have hosted town hall forums, management communication meetings, and informal meetings with groups of managers and non-managerial colleagues for them to share their views about transforming the Company. The Company has also engaged an independent consulting firm to conduct pulse surveys on a quarterly basis to collect feedback from staff on an anonymous basis about their understandings, concerns and expectations of the transformation and has recently concluded a full staff engagement survey. All of these forums provide important opportunities for the Executive Directorate to steer the continued implementation of the new Corporate Strategy and ensure alignment between the Strategy and the Company's values and culture.

For more details about the Company's approach to human capital management, including how the corporate culture is nurtured, as well as how the Company approaches equal employment opportunities and diversity, please refer to the Sustainability Report.

CORPORATE GOVERNANCE PRACTICES

Corporate governance is the collective responsibility of the Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board actively seeks opportunities for continuous improvement in the area of corporate governance and takes prompt action in responding to identified improvement opportunities.

The Stock Exchange published its consultation conclusions on the consultation paper entitled "Review of the Corporate Governance Code and Related Listing Rules" in December 2021. The revised Listing Rules and new Corporate Governance Code have come into effect on 1 January 2022, and the requirements under the new Corporate Governance Code will apply to corporate governance reports for financial years commencing on or after 1 January 2022. The Company has complied with most of the new requirements and has already implemented certain new requirements including, but not limited to, reflecting the relevant new requirements in the updated terms of reference of the Board's Corporate Governance Functions and Nominations Committee and in the updated Nomination Policy and Board Diversity Policy.

Acting through the former Risk Committee and Audit Committee (now known as the Audit & Risk Committee), in 2019 the Company mandated a review of the Company's internal control and risk management systems. For more information on this review, please refer to page 139 of this Annual Report.

At the Board level and as mentioned in the 2020 Annual Report, the Company engaged an external consultant to conduct a Board evaluation exercise, which was kicked off in the third quarter of 2020. The purpose of this review was to evaluate the effectiveness of the Board in supporting the implementation of the new Corporate Strategy. For more information on the Board evaluation and the enhancements it has given rise to, please refer to page 107 of this Report.

CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2021, the Company has complied with the code provisions as set out in Corporate Governance Code in force in material time (the "CG Code") in Appendix 14 (Corporate Governance Code and Corporate Governance Report) to the Listing Rules. In the following corporate governance areas, the Company's practices have exceeded the relevant CG Code/Listing Rules requirements:

Corporate Governance Areas	Details of Exceedance
Number of Independent Non-executive Directors ("INED")	The number of INEDs represents more than two-thirds of the Board, which exceeds the independence requirement under the Listing Rules
Number of INEDs in Audit & Risk Committee (formerly known as Audit Committee)	The Audit & Risk Committee consists of six INEDs, which exceeds the independence requirement under the Listing Rules
Number of Regular Board Meetings	The Company holds seven Regular Board Meetings each year, and Special Board Meetings are held as and when required, which exceeds the requirement under the CG Code
Notice of Regular Board Meetings	The dates of Regular Board Meetings for the following year are usually fixed in the third quarter of the preceding year
Model Code Confirmation	• Confirmation of Compliance with the Model Code is obtained from each Director and Model Code Manager (as defined below) every half-year • An electronic platform has been established to give one-stop access to the relevant key processes to support compliance with the Model Code
Evaluation of the Effectiveness of Risk Management System	• The Company reviews not only the effectiveness of the risk management system of the Company and its subsidiaries, but also that of its key associates operating in Mainland China and overseas • The Company has established a risk-based Three Lines of Defence framework to ensure appropriate focus is applied to relevant risks and provide recommendations to address identified gaps and inefficiencies

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

THE BOARD OF DIRECTORS

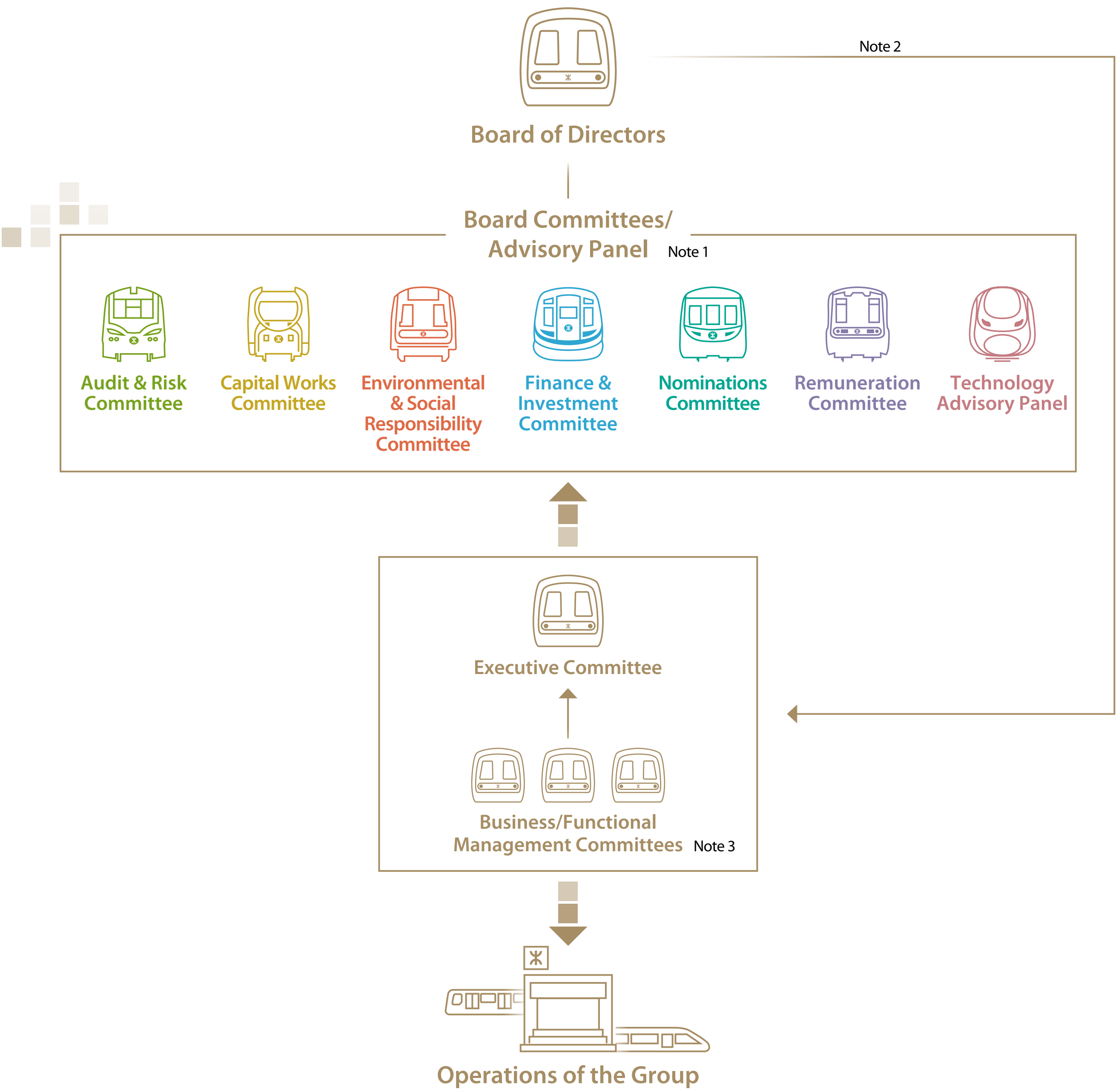
Overall Management

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

Following the restructuring of the Board Committees and a review of the Protocol in late 2021 and January 2022, the Protocol was updated such that the Board reserves the right to delegate any decision-making powers reserved by it in accordance with the Protocol to any of the Board Committees in existence from time to time (whether or not such delegation is expressly referred to in the Protocol).

To enable the Board to maintain adequate oversight, the Board receives updates and briefings on matters that have a significant impact on the Company's operations and businesses on a regular basis, supplemented by ad hoc reporting as and when required.

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



Notes:

1. *All Board Committees/Advisory Panel(s) are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense, to perform their responsibilities. The terms of reference of each Board Committee/Advisory Panel are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange*
2. *The Executive Committee is delegated by the Board to handle the day-to-day management of the Company's business pursuant to the Articles of Association and the Protocol; and is chaired by the Chief Executive Officer ("CEO") and made up of nine other Members of the Executive Directorate.*
3. *Business/Functional Management Committees are set up to assist the Executive Committee in the management and control of the Company's various core businesses and functions.*

Composition of the Board

A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 148 to 160 of this Annual Report.

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

Government, through The Financial Secretary Incorporated, held approximately 74.82% of the issued shares of the Company as at 31 December 2021, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of her right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

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

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

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

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

Chairman and CEO

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

Chairman (Non-executive Director)

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

CEO (Executive Director)

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

Board Evaluation

During the year ended 31 December 2021, an external consultant engaged by the Company conducted a 3-stage Board evaluation exercise focusing on four areas: engagement, communication, structure and composition of the Board.

Stage 1
Current Stage Diagnosis

Questionnaire

- Understand the Members of the Board's perspective and identify areas for improvement

Interview

- Deep dive on governance experience and existing challenges

Stage 2
Benchmarking Analysis

Market Standard

- Benchmark the Company against selected market standards

Leading Practices

- Identify leading practices and bring inspiration

Stage 3
Gap Analysis and Recommendations

Gap Analysis

- Identify gaps in the current structure

Recommendations

- Develop options and recommendations for improvement in light of the new Corporate Strategy implementation

Implementation of the recommendations (which were mainly in the areas of financial delegations, Board Committees, succession planning and reporting to the Board on the implementation of the new Corporate Strategy) have been prioritised after mapping the recommendations with their potential impact and the effort required to implement. This led to a restructuring of the Company's Board Committees and revamping of their terms of reference with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the new Corporate Strategy. The restructuring and other changes took effect from 1 February 2022.

Board Committees

Before Restructuring	After Restructuring
Audit Committee	Audit & Risk Committee
Capital Works Committee	Capital Works Committee
Corporate Responsibility Committee	Environmental & Social Responsibility Committee
Nominations Committee	Nominations Committee
Remuneration Committee	Remuneration Committee
Risk Committee	Finance & Investment Committee *(New)*
	Technology Advisory Panel *(New)*

More details about the new Finance & Investment Committee and Technology Advisory Panel are provided on page 110 of this Report.

The Board will continue to monitor the progress of the implementation of the recommendations made pursuant to this exercise.

Board Committees/Advisory Panel(s)

The Board discharges some of its responsibilities through delegation, with appropriate oversight, to respective Board Committees and Advisory Panel(s). The Board Committee memberships and the attendance record of each Member of the Board in 2021 are set out on pages 119 to 121 of this Report.

The duties and work performed by the Audit Committee (now known as the Audit & Risk Committee), former Risk Committee, Capital Works Committee and Remuneration Committee during the year are set out in their respective reports in this Annual Report:

- "Audit Committee Report" on pages 132 to 134;
- "Risk Committee Report" on pages 140 to 141;
- "Capital Works Committee Report" on page 142; and
- "Remuneration Committee Report" on pages 143 to 147.

Nominations Committee

The Nominations Committee consists of seven NEDs, four of whom are INEDs. The Chairman of the Committee is an INED. Its terms of reference, as updated in February 2022, are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Principal responsibilities:

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

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

- Desirable skillsets for the Board, taking account of the findings of the Board evaluation exercise;
- Annual review of the structure, size and composition of the Board and a list of skillsets for the Board;
- Annual assessment of the independence of each INED;
- Re-election/Election of Members of the Board retiring at the Company's annual general meeting held on 26 May 2021 ("2021 AGM"); and
- Proposed nomination of new Members of the Board for election by shareholders at the 2021 AGM.

As at the date of this Report, the Nominations Committee has conducted, inter alia, (i) an annual review of the current structure, size and composition (including skills/experience/perspectives) of the Board and considered the same is appropriate in light of the Company's strategy and business needs and the list of skillsets of the Board; and (ii) a review of proposed amendments to the Nomination Policy and BD Policy of the Company. The Nominations Committee has also assessed that the Board (1) currently possesses a balanced mix of skills, experience and diversity of perspectives, (2) is in line with the Company's BD Policy, and (3) is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner.

Environmental & Social Responsibility Committee

Following the Board Committees restructuring, with effect from 1 February 2022 the Corporate Responsibility Committee has been renamed as the Environmental & Social Responsibility Committee. Its terms of reference, as updated in February 2022, are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

As at the date of this Report, the Environmental & Social Responsibility Committee consists of seven members, made up of three INEDs, one NED and three Members of the Executive Directorate. The Environmental & Social Responsibility Committee is chaired by the Chairman of the Company.

After the Board Committees restructuring, the principal responsibilities of the Committee include:

- Engaging in any activity and acting as an advisor to the Board in respect of matters falling within the Committee's terms of reference;
- Approving the Company's environmental and social ("E&S") strategy;
- Overseeing the setting and achievement of targets under the Company's E&S strategy;
- Monitoring and overseeing the Company's E&S (including safety) performance and the related frameworks and initiatives;
- Approving E&S investments by the Company in excess of the thresholds set by the Board, in accordance with the Company's E&S investment framework;
- Overseeing the Company's stakeholder engagement strategy;
- Identifying emerging corporate responsibility and sustainability issues arising from external trends;
- Reviewing the Company's annual Sustainability Report and recommending endorsement by the Board; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Before the Board Committees restructuring, the principal responsibilities included:

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

Please also refer to the "Corporate Responsibility" section (pages 74 to 81) of this Annual Report.

Work performed during the year:

- Monitored the advancement of the New Social and Environmental Objectives of Social Inclusion, Greenhouse Gas Emissions and Advancement & Opportunities;
- Reviewed and recommended the 2020 Sustainability Report to the Board for approval;
- Considered the Company's performance on various local and international sustainability indices;
- Monitored the progress of a Carbon Reduction Study; and
- Monitored the progress of various youth, elderly and district-level community engagement and investment programmes.

Finance & Investment Committee

The Finance & Investment Committee is a new Board Committee established on 1 February 2022. As at the date of this Report, the Committee consists of six NEDs, of which five are INEDs and the Chairman is an INED. Its terms of reference are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Principal responsibilities:

Reviewing proposals from the Company's Executive Directorate on the following matters and providing an assessment of such proposals to the Board for its consideration:

- the annual budget and financing plan of the Company;
- the Company's preferred financing model;
- the Company's dividend policy;
- if in excess of the financial or other thresholds set by the Board, bank borrowings or other financing agreements, investments and disposals, parent company guarantees, expenditure and revenue contract awards;
- the strategy for (if in excess of the investment threshold set by the Board) and the award of tenders for the Company's property development projects in Hong Kong;
- the average and floor selling prices for units within the Company's property development projects;
- project proposals for new capital works projects in Hong Kong; and
- the investment caps for the Company's Mainland China and International Businesses and for any other part(s) of the Company's business.

Technology Advisory Panel

The Technology Advisory Panel is a new panel of the Company established on 1 February 2022. As at the date of this Report, the Panel consists of three members of the Board, of which two are INEDs, and an external advisor. The Chairman of the Panel is an INED.

The terms of reference of the Panel are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Principal responsibilities:

- Reviewing and providing input and direction to the setting and implementation of the Company's digital strategy and "Engine 2" strategy, the Company's long-term technological development plans and implementation schemes, as well as the Group's cyber security positioning; and
- Reviewing relevant digital trends, new technologies and cyber security developments and incidents and make recommendations to the Company's Executive Directorate and, where appropriate, the Board on further developing the Company's digital strategy and cyber security positioning.

Company Secretary

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

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

- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2021, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

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

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

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

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

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

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

The Company has a service contract with each of the NEDs (with the exception of the Additional Directors) and the INEDs, specifying the terms of his/her continuous appointment as a NED or an INED and as the chairman or a member of the relevant Board Committee(s).

Nomination Policy

A Nomination Policy (the "Nomination Policy") updated in March 2022, documenting the procedures and practices that have been adopted by the Company, is posted on the Company's website (www.mtr.com.hk).

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

The Board has delegated to the Nominations Committee the authority to identify and assess potential candidates for appointment to the Board through different means and channels, including recommendations from Members of the Board, use of external search firms, and any other means or channels that it deems appropriate. To ensure an appropriate level of refreshment of views at the Board, recommendations from the Nominations Committee to the Board are required to set out justifications for re-appointing a Member of the Board who has completed three consecutive terms of service (each of three years); in addition, for an INED who has completed three consecutive terms of service (each of three years), a recommendation from the Nominations Committee for his/her re-appointment shall include the reason(s) why such INED is still considered to be independent and should be re-appointed.

Nomination Procedures

The following diagram demonstrates the nomination procedures for new appointments and re-elections of Members of the Board:

Nominations Committee

New Appointment

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

Re-election

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

Board

New Appointment

Re-election

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

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

Shareholders

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

Selection Parameters

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

(i) the strategy of the Company;

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

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

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

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

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

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

(viii) the need for a strong independent element on the Board; and

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

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

The Nominations Committee will review the implementation of the Nomination Policy at least annually, including the mechanisms for ensuring independent views and input are available to the Board, and make recommendations on any proposed changes to the Board for the Board's review and approval to ensure its effectiveness.

Board Diversity

The Company has posted its BD Policy, updated in March 2022, on the Company's website (www.mtr.com.hk). The BD Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Members of the Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Company is conscious of maintaining a Board made up with INEDs as the majority, together with an appropriate level of female Members on the Board, which shall not be less than 20% with immediate effect and 25% by 2025. While conscious efforts are being taken by the Company to fulfil its pledges, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

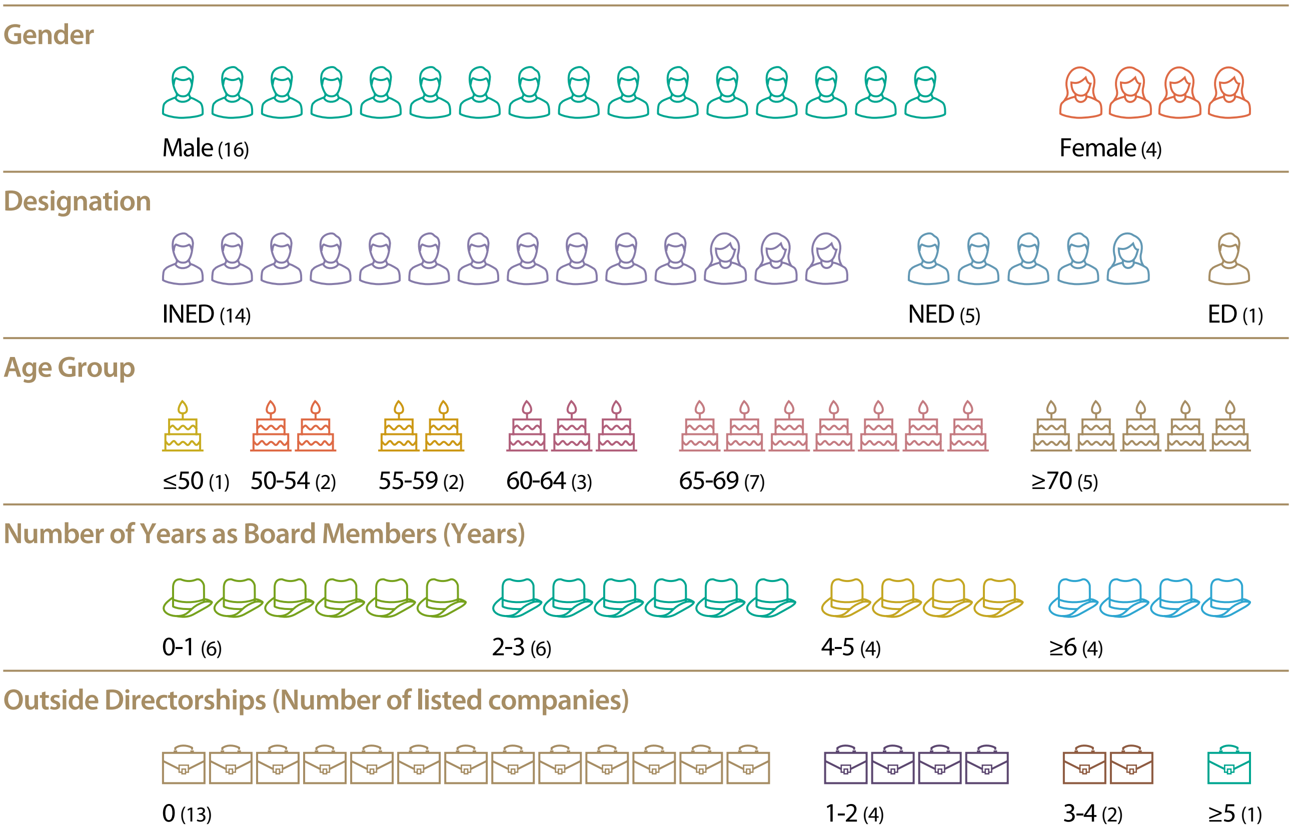
The Nominations Committee will review the implementation of the BD Policy at least annually and make recommendation on any proposed changes to the Board for the Board's review and approval to ensure its continued appropriateness and effectiveness.

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

(i) Mr Hui Siu-wai as an INED; and

(ii) Mr Adrian Wong Koon-man as an INED.

The Committee and the Board formed the view that, with Mr Hui's rich experience in surveying and building and construction regulation and Mr Wong's wide experience in corporate finance, real estate and equity investments, each of them would be a valuable addition to the Board and would further enrich the spectrum of skills, experience and diversity of perspectives of the Board, thereby enhancing the diversity and effectiveness of the Board.



INED INDEPENDENCE AND STATUTORY CONFIRMATIONS

For the year ended 31 December 2021, the Company has received an annual confirmation from each INED about his/her independence and, where applicable, the interests of his/her immediate family member(s) (as defined under the Listing Rules). The Nominations Committee has reviewed the said confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

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

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

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

Save as disclosed in this Annual Report, none of the Members of the Board or the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) with another Member of the Board or the Executive Directorate or holds any cross-directorships. In addition, none of the Members of the Board holds seven (or more) directorships in listed companies (including the Company) or has significant links with other Members of the Board through involvements in other companies or bodies as at 31 December 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

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

For enhanced monitoring and effectiveness, the Company has implemented a Model Code Managers Management System to provide one-stop access to the relevant key processes to support compliance with the Model Code. Periodic training is also required to be completed by Model Code Managers.

DIRECTORS' INSURANCE

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' ("D&O") Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2021 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

CORPORATE GOVERNANCE FUNCTIONS REVIEW

The Board conducted an annual review of its Corporate Governance duties in accordance with its terms of reference on Corporate Governance Functions and the latest review was done in March 2022. Below is a summary of the work performed during the year ended 31 December 2021:

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

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

The terms of reference on Corporate Governance Functions updated in January 2022 are available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

BOARD PROCEEDINGS

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

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

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

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

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

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

MATERIAL INTERESTS AND VOTING

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

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

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

There are a number of contractual arrangements that have been entered into between the Company and Government (and/or its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 173 to 194) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been treated.

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

BOARD MEETINGS

The Board held eight meetings in 2021 (seven Regular Meetings and one Special Meeting), well exceeding the requirement of the CG Code which requires every listed issuer to hold board meetings at least four times a year.

In addition and as required by the Listing Rules, the Chairman has met with INEDs only without the presence of other Members of the Board during the year, at which matters surrounding the implementation of the new Corporate Strategy and transformation programme, the performance of the Management team, the proposed changes to the Board Committees memberships and terms of reference, ways to enable Board Members to know more about the Company's operations, the need for continuous focus on staff motivation and ways to further improve the presentation of papers and reports to the Board were discussed.

Regular Meetings

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

In addition, other key matters discussed at Board meetings held in 2021 included:

- Corporate Strategy:
  - Receipt of progress report and updates on the corporate transformation programme;
- Corporate Governance matters, including:
  - Annual review of the structure, size and composition of the Board and its corporate governance functions for 2020; annual assessment of (i) the independence of the INEDs; and (ii) the effectiveness of the Company's risk management and internal control systems for 2020;
  - Recommendation of the appointment of new Members of the Board, re-election of retiring Members of the Board, and amendments to the Articles of Association for approval by shareholders at the 2021 AGM;
  - Approval of changes to the composition of Board Committees;
  - Consideration of new/proposed changes to the terms of reference of a new Board Committee and a new Advisory Panel/existing Board Committees, and proposed amendments to the Protocol; and the annual update to the Directors' Manual;
  - Receipt and consideration of reports from Management on key matters such as corporate safety governance, enterprise risk management and sustainability;
  - Receipt of shareholder analysis and investors' feedback; and
  - Receipt of report on the Board evaluation exercise;
- Transport Services:
  - Review of 2020 train service performance;
  - Receipt of a report on the performance of the East Rail Line's new Signalling System and Mixed Fleet Operations;
  - Approval of agreements relating to the operation of the Tuen Ma Line Phase 2;
  - Approval of the Company's fare adjustment principles in 2021 under the Fare Adjustment Mechanism (the "FAM");
  - Approval of the Company's fares proposal for 2021 under the FAM; and
  - Approval of a contract renewal strategy for station commercial space;

- Capital Works:
  - Approval of budget for the design consultancy, advance investigation works and related works, and award of preliminary design for the Northern Link project;
  - Approval of budget for the design consultancy and related contracts for the pre-construction stage of the Hung Shui Kiu Station project;
  - Approval of budget for advance works for the Siu Ho Wan Depot Property Development; and
  - Approval of the pre-construction stage budget for the Airport Railway Extended Overrun Tunnel;
- Property:
  - Approval of tender arrangements for property developments in Hong Kong;
  - Receipt of update on the Siu Ho Wan Depot Property Development and approval of the related budget for the detailed design and advance works; and
  - Receipt of reports on the Tai Wai Station Property Development (The Pavilia Farm) concrete strength deficiency incident;
- Mainland China and International Businesses:
  - Approval to bid for an overseas project;
  - Approval of a financial arrangement for a project in Mainland China; and
  - Receipt of business and strategy updates on Macao, Mainland China and International Businesses including projects in the pipeline;
- Financial:
  - Review and approval of the 2020 Annual and the 2021 Interim Report and Accounts;
  - Receipt of regular updates on the financial impacts of COVID-19;
  - Approval of the renewal of the US$7 Billion Debt Issuance Programme;
  - Approval of the 2022 Budget and Longer Term Forecast;
  - Approval of a revised Financial Delegation Framework; and
  - Approval of the Enterprise Resource Planning implementation project;
- Human Resources:
  - Approval of 2021 Annual Pay Review.

Special Meetings

During 2021, one Special Meeting was held to consider matters, including a further capital injection into an international business as a result of the impact of COVID-19 on that business and the approval of the Company's participation in the tender for a property development site in Hong Kong.

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

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 119 to 121 of this Report.

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2021

	Attendance									
	Board Meetings		Board Committees Meetings						2021 AGM	Training[Ω]
	RM	SM	AC	NC	RC	CWC	RiskC	CRC		
Total Number of Meetings	7	1	4	1	3	5	4	2	1	
Members of the Board										
Non-executive Directors ("NED")										
Dr Rex Auyeung Pak-kuen (Chairman)[(1)]	7/7	1/1		1/1	3/3			2/2[C]	1/1	√
Christopher Hui Ching-yu[(2)] (Secretary for Financial Services and the Treasury)	5/7	0/1		1/1	0/3				0/1	√
Secretary for Transport and Housing (Frank Chan Fan)[(3)]	4/7	1/1		0/1	2/3				0/1	√
Permanent Secretary for Development (Works) (Ricky Lau Chun-kit)[(4)]	1/2	N/A				1/1	0/1		N/A*	√
Commissioner for Transport (Rosanna Law Shuk-pui)[(5)]	7/7	1/1	3/4				3/4		0/1	√
Independent Non-executive Directors ("INED")										
Andrew Clifford Winawer Brandler[(6)]	6/7	1/1	4/4				3/4[C]		1/1	√
Dr Bunny Chan Chung-bun[(7)]	7/7	1/1						2/2	1/1	√
Walter Chan Kar-lok[(8)]	7/7	1/1		1/1				2/2	1/1	√
Dr Pamela Chan Wong Shui	7/7	1/1		1/1[C]				2/2	1/1	√
Dr Dorothy Chan Yuen Tak-fai	7/7	1/1			3/3[C]	5/5			1/1	√
Cheng Yan-kee	7/7	1/1			3/3	5/5[C]			1/1	√
Dr Anthony Chow Wing-kin[(9)]	7/7	1/1			3/3	5/5			1/1	√
Dr Eddy Fong Ching[(10)]	7/7	1/1	4/4[C]	1/1					1/1	√
Hui Siu-wai[(11)]	4/4	1/1				3/3	3/3		N/A*	√
Dr Rose Lee Wai-mun[(12)]	5/7	1/1	4/4				4/4		1/1	√
Jimmy Ng Wing-ka[(13)]	7/7	1/1				5/5		2/2	1/1	√
Benjamin Tang Kwok-bun[(14)]	7/7	1/1			3/3		4/4		1/1	√
Adrian Wong Koon-man[(15)]	4/4	1/1	3/3	N/A					N/A*	√
Johannes Zhou Yuan[(16)]	7/7	0/1	3/4				4/4		1/1	√
Executive Director ("ED")										
Dr Jacob Kam Chak-pui (CEO)	7/7	1/1						2/2	1/1	√
Members of the Executive Directorate & the Executive Committee										
Dr Jacob Kam Chak-pui (CEO)	7/7	1/1						2/2	1/1	√
Adi Lau Tin-shing[(17(a))]									1/1	√
Roger Francis Bayliss[(17(b))]									1/1	√
Margaret Cheng Wai-ching								1/2	1/1	√
Linda Choy Siu-min[(17(c))]								0/1	1/1	√
Herbert Hui Leung-wah									1/1	√
Dr Tony Lee Kar-yun									1/1	√
Gillian Elizabeth Meller[(17(d))]								1/1	1/1	√
David Tang Chi-fai[(17(e))]									1/1	√
Jeny Yeung Mei-chun[(17(f))]									1/1	√
Members departed during 2021										
NED										
Permanent Secretary for Development (Works) (Lam Sai-hung)[(18)]	4/5	1/1				3/4	2/3		0/1	√
INED										
James Kwan Yuk-choi[(19)]	3/3	N/A				2/2	1/1		0/1	x
Lucia Li Li Ka-lai[(20)]	3/3	N/A	1/1	1/1					0/1	x
Member of the Executive Directorate & the Executive Committee										
Dr Peter Ronald Ewen[(21)]									N/A	x

Legend:

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

Board Committee Meetings
AC – Audit Committee (renamed "Audit & Risk Committee ("A&RC")" with effect from 1 February 2022)
NC – Nominations Committee
RC – Remuneration Committee
CWC – Capital Works Committee
RiskC – Risk Committee (disbanded from 1 February 2022 due to Board Committees restructuring)
CRC – Corporate Responsibility Committee (renamed "Environmental & Social Responsibility Committee ("E&SRC")" with effect from 1 February 2022)

2021 AGM – Annual General Meeting of the Company held on 26 May 2021

N/A – Not applicable

***** – appointed after the conclusion of 2021 AGM

C – Chairman of the committee

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

Notes:

1. *Dr Rex Auyeung has been re-appointed by the Financial Secretary Incorporated as the Chairman of the Board for a period of two and a half years starting from 1 January 2022 to 30 June 2024 (both dates inclusive).*
2. *Mr Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury) was appointed by the Board as a member of the Finance & Investment Committee ("F&IC") of the Company and ceased to be a member of the NC of the Company, both with effect from 1 February 2022.*

   The alternate directors of Mr Hui, acting on his behalf, attended two RM, one SM and three RC meetings. Mr Hui's alternate director was not present at a portion of a Board Meeting at which the Company's participation in the tender for a property development site in Hong Kong was discussed for avoidance of any actual or perceived conflict of interest.
3. *The alternate directors of the Secretary for Transport and Housing (Mr Frank Chan Fan), acting on his behalf, attended four RM (including a portion of one meeting), one NC meeting and one RC meeting. Mr Chan was not present at a portion of a Board Meeting at which the Company's participation in the tender for a property development site in Hong Kong was discussed for avoidance of any actual or perceived conflict of interest.*
4. *Mr Ricky Lau Chun-kit became a NED of the Company with effect from 8 October 2021 when he took up the post of Permanent Secretary for Development (Works) ("PS for D(W)"). He also became a member of each of the CWC and the RiskC of the Company, both with effect from the same date. He was then appointed by the Board as a member of the NC of the Company and ceased to be a member of the RiskC of the Company, both with effect from 1 February 2022.*

   The alternate director of Mr Lau, acting on his behalf, attended one RM and one RiskC meeting.
5. *Miss Rosanna Law Shuk-pui (Commissioner for Transport) was appointed by the Board as a member of the Technology Advisory Panel of the Company and ceased to be a member of the RiskC of the Company, both with effect from 1 February 2022.*

   The alternate director of Miss Law, acting on her behalf, attended one AC (now known as A&RC) meeting and one RiskC meeting. Miss Law was not present at a portion of a Board Meeting at which the Company's participation in the tender for a property development site in Hong Kong was discussed for avoidance of any actual or perceived conflict of interest.
6. *Mr Andrew Brandler was appointed by the Board as a member and the chairman of the F&IC of the Company and ceased to be a member and the chairman of the RiskC of the Company, all with effect from 1 February 2022.*
7. *Dr Bunny Chan Chung-bun was appointed by the Board as a member of the F&IC of the Company with effect from 1 February 2022.*
8. *Mr Walter Chan Kar-lok was appointed by the Board as a member of the CWC of the Company and ceased to be a member of the CRC (now known as E&SRC) of the Company, both with effect from 1 February 2022.*
9. *Dr Anthony Chow Wing-kin was appointed by the Board as a member of the NC of the Company and ceased to be a member of the CWC of the Company, both with effect from 1 February 2022.*
10. *Dr Eddy Fong Ching was appointed by the Board as a member of the F&IC of the Company and ceased to be a member of the NC of the Company, both with effect from 1 February 2022.*
11. *Mr Hui Siu-wai was elected as a Board Member and became an INED of the Company with effect from the conclusion of the 2021 AGM, and was appointed by the Board as a member of each of the CWC and the RiskC of the Company with effect from the same date.*

    Mr Hui was then appointed by the Board as a member of the AC (now known as A&RC) of the Company and ceased to be a member of the RiskC of the Company, both with effect from 1 February 2022.
12. *Dr Rose Lee Wai-mun was appointed by the Board as a member of the F&IC of the Company and ceased to be a member of the RiskC of the Company, both with effect from 1 February 2022. She was not present at a portion of a Board Meeting at which the Company's participation in the tender for a property development site in Hong Kong was discussed for avoidance of any actual or perceived conflict of interest.*
13. *Mr Jimmy Ng Wing-ka was appointed by the Board as a member of the NC of the Company and ceased to be a member of the CWC of the Company, both with effect from 1 February 2022.*
14. *Mr Benjamin Tang Kwok-bun was appointed by the Board as a member of the Technology Advisory Panel of the Company and ceased to be a member of the RiskC of the Company, both with effect from 1 February 2022.*
15. *Mr Adrian Wong Koon-man was elected as a Board Member and became an INED of the Company with effect from the conclusion of the 2021 AGM, and was appointed by the Board as a member of each of the AC (now known as A&RC) and the NC of the Company with effect from the same date. He was then appointed by the Board as a member of the F&IC of the Company and ceased to be a member of the NC of the Company, both with effect from 1 February 2022.*
16. *Mr Johannes Zhou Yuan was appointed by the Board as a member and the chairman of the Technology Advisory Panel of the Company and ceased to be a member of the RiskC of the Company, all with effect from 1 February 2022.*

17. To support the implementation of the new Corporate Strategy, the following new management organisation and corporate reorganisation has been completed in phases:

(a) Mr Adi Lau Tin-shing was appointed as the Managing Director – Mainland China Business and Global Operations Standards and ceased to be the Managing Director – Operations and Mainland Business of the Company, both with effect from 1 July 2021.

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

(c) Ms Linda Choy Siu-min was appointed as the Corporate Affairs and Branding Director and ceased to be the Corporate Affairs Director, both with effect from 1 July 2021. Ms Choy also ceased to be a member of the CRC (now known as E&SRC) of the Company with effect from 6 July 2021.

(d) Ms Gillian Elizabeth Meller was appointed as the Legal and Governance Director and ceased to be the Legal and European Business Director of the Company, both with effect from 22 February 2021. Ms Meller was also appointed by the Board as a member of the CRC (now known as E&SRC) of the Company with effect from 6 July 2021.

(e) Mr David Tang Chi-fai was appointed as the Property and International Business Director and ceased to be the Property and Australian Business Director of the Company, both with effect from 22 February 2021.

(f) Ms Jeny Yeung Mei-chun was appointed as the Hong Kong Transport Services Director and ceased to be the Commercial Director of the Company, both with effect from 1 July 2021.

18. Mr Lam Sai-hung retired from the post of the PS for D(W) with effect from 8 October 2021, and, as a result, ceased to be a NED and a member of each of the CWC and the RiskC of the Company, all with effect from the same date.

The alternate director of Mr Lam, acting on his behalf, attended one CWC meeting and one RiskC meeting. Mr Lam was not present at a portion of a Board Meeting at which the Company's participation in the tender for a property development site in Hong Kong was discussed for avoidance of any actual or perceived conflict of interest.

19. Mr James Kwan Yuk-choi retired as an INED and ceased to be a member of each of the CWC and the RiskC of the Company, all with effect from the conclusion of the 2021 AGM.

20. Mrs Lucia Li Li Ka-lai retired as an INED and ceased to be a member of each of the AC (now known as A&RC) and the NC of the Company, all with effect from the conclusion of the 2021 AGM.

21. Dr Peter Ronald Ewen retired as the Engineering Director and ceased to be a Member of the Executive Directorate of the Company, both upon the completion of his service agreement with the Company immediately after 21 February 2021.

INDUCTION PROGRAMME AND OTHER TRAINING

Induction Programme

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

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

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

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also provided with a Directors' Manual on their appointment which sets out, amongst other things, directors' roles and responsibilities, their key obligations from both a statutory and a regulatory perspective, and the terms of reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated regularly to keep the contents up to date so that the Directors are kept abreast of changes and latest developments in the laws and regulations that are relevant to Directors and the Company. The latest updates to the Directors' Manual, approved by the Board in January 2022, reflected primarily (i) the changes associated with the Board Committees restructuring with effect from 1 February 2022; and (ii) the changes in the Listing Rules subsequent to the Stock Exchange's consultation conclusions on the "Review of Corporate Governance Code & Related Listing Rules, and Housekeeping Rule Amendments".

Training and Continuous Professional Development

Members of the Board and the Executive Directorate

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

Board Visit

In June 2021, certain Members of the Board and the Executive Directorate visited the Tuen Ma Line Stations to gain a first hand understanding of the railway operations of the Tuen Ma Line.

Training

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

Each Member of the Board and the Executive Directorate has also provided to the Company a record of the training he/she has received during the year, which is set out on pages 119 to 121 of this Report.

Senior Executives

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

To support the enhancement of the business acumen, leadership and management skills of the Senior Executives, professors from renowned business schools and companies are engaged to share cutting-edge research and insights on thought leadership, leading change, digital transformation and innovation as well as contemporary management and business topics. Various tailored global leadership development virtual workshops were also organised in 2021 to enable key Senior Executives to enhance their leadership, customer-centric and strategic thinking capabilities.

FINANCIAL REPORTING

Members of the Board are responsible for preparing the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of the Group's consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated accounts for the year ended 31 December 2021, Members of the Board have selected appropriate accounting policies and have applied them consistently with previous financial period, apart from those new and amended accounting policies effective from 1 January 2021 as disclosed in the notes to the consolidated accounts for the year ended 31 December 2021. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the external auditor of the Company (the "External Auditor") are set out on pages 198 to 201 of this Annual Report.

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

Members of the Board endeavour to ensure a balanced, clear and coherent assessment of the Group's financial position and performance in annual reports, interim reports, inside information announcements, and other financial disclosures required under the Listing Rules and other statutory requirements.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for the risk management and the internal control systems of the Company and its subsidiaries and reviewing their effectiveness. With the assistance from the Audit & Risk Committee (which has taken over some of the duties of the former Risk Committee as mentioned in the Audit Committee Report on pages 132 to 134 of this Annual Report), the Board oversees the Company's risk management system (the "ERM" system) and internal control system on an on-going basis, sets appropriate policies and reviews the effectiveness of the systems at least annually.

Following a mandate from the Board to review the Company's internal control and risk management systems, in 2020, an external consultant conducted a deep-dive assessment of the Company's existing Three Lines of Defence ("3LoD") framework to identify any gaps or opportunities for improvement in the framework. Over the course of 2021, the Company has strengthened its Second Line of Defence through the establishment of an independent Assurance Management Department, which has been complemented by new technical and engineering Centres of Excellence, to help manage key risks.

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

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

Systems Overview

The Executive Committee is responsible for:

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

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

Business/Functional Management Committees

A number of committees have been established to assist the Executive Committee in the management and control of the Company's various core businesses and functions. Each committee has its own terms of reference which, together with the structure and composition of the committees, are reviewed from time to time to ensure they meet the Company's business and operational needs.

Internal Audit

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

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

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

ERM system

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

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 135 to 139) of this Annual Report.

Control Activities and Processes

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

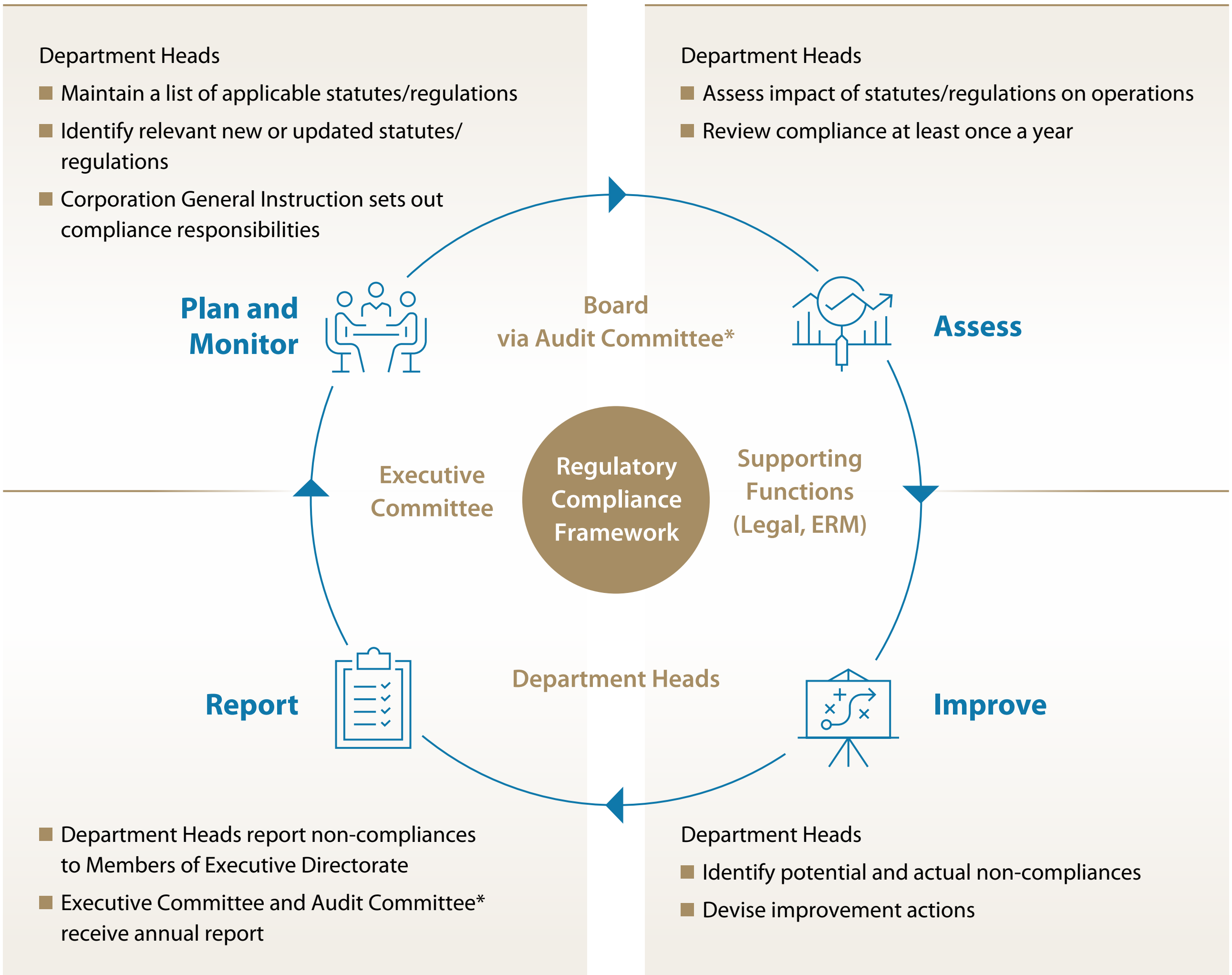
CGIs and various Departments' procedures and manuals are established for preventing or detecting unauthorised expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records, and timely preparation of reliable financial information.

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

Compliance with Statutes and Regulations

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

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



* *as Audit & Risk Committee effective from 1 February 2022*

Whistle-blowing Policy

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

Inside Information Policy

The Company has developed a system with established policies, processes and procedures across all relevant Functions, Business Units and Departments for the handling and dissemination of Inside Information, which encompasses the following:

- A CGI sets out:
  - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;
  - (ii) the responsibilities of Model Code Managers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
  - (iii) the process for disclosure of Inside Information; and
- Training for Members of the Board and the Executive Directorate, Executive Managers, Department Heads and Model Code Managers is provided from time to time. In particular, Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers are regularly required to complete a computer-based training programme on Inside Information.

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant requirement in the CG Code by completing an effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's key associates operating in Mainland China and overseas. For the year ended 31 December 2021, the Audit & Risk Committee, with delegated authority from the Board, has evaluated the effectiveness of the ERM system of the Company and considers that it is overall effective and adequate.

Details about the "Process of System Effectiveness Review" are set out in the Risk Management section (page 138) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2021, the annual review of the effectiveness of the internal control system of the Company and its subsidiaries and key associates was performed by the Audit & Risk Committee based on the following:

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

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

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

For the year ended 31 December 2021, the annual assessment performed by the Finance Function and IAD concluded that there were adequate resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

The Company is committed to recruit, train and develop a team of qualified and competent accountants for overseeing the Group's financial reporting and other accounting-related matters. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance Director, who will conduct a formal annual review and report the review results to the Audit & Risk Committee.

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance and consulting services designed to add value and improve the Company's operations. A process to capture updated standards and best practices relating to internal audit is in place. Proper recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. The Head of Internal Audit conducts a formal annual review on the adequacy of staff resources, qualifications and experience of the internal audit function and reports the review results to the Audit & Risk Committee.

Based on the above, the Audit & Risk Committee considered the resources, qualifications and experience of staff, training programmes and budget of the Company's accounting, financial reporting and internal audit functions were adequate.

Board's Annual Review

The Board has, through the Audit & Risk Committee, overseen the Company's risk management and internal control systems on an on-going basis. The Board has conducted its annual review of the risk management and internal control systems of the Company and its subsidiaries and key associates for the year ended 31 December 2021, and considers that such systems are overall effective and adequate, with supporting compliance mechanisms to provide assurance that the Company and its officers observe their disclosure obligations in respect of Inside Information.

The Board has also conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2021, and considers the above resource components to be adequate.

CRISIS MANAGEMENT

To uphold the reputation of being one of the world's leading railway operating companies and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as Government departments and shareholders, the Company has an established mechanism to activate different levels of crisis responses in the event of a crisis. The Corporate Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Corporate Crisis Management Plan which, among other things, sets out the duties of respective members. The Corporate Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Corporate Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and disseminate crisis related information. Regular Corporate Crisis Management Team exercises are held to validate the corporate crisis management organisation and arrangements and to provide practices for members.

To further enhance the Corporate Crisis Management Framework, a review was conducted in 2021 to review the crisis response structure, to which the Business Unit Crisis Response level has been added to provide agility in crisis response.

In response to the prolonged COVID-19 pandemic in 2021, the Corporate Crisis Management Team has delegated the tactical level monitoring of the situation and the coordination of the Company's responses and actions to the Infectious Disease Management Team, with a view to striving to safeguard the health and safety of our customers, staff and contractors and reducing the impacts on the Company's operations.

GOVERNANCE OF SUBSIDIARIES AND ASSOCIATES

The Company has a number of subsidiaries and associates which operate independent businesses in Hong Kong, Macao, Mainland China and overseas. Notwithstanding the fact that these subsidiaries and associates are separate legal entities, the Company has implemented a management governance framework (the "Governance Framework") to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and associates.

The Company's Governance Framework promotes collaboration between the corresponding Business Units/Functions in the Company on the one hand and the subsidiaries and associates on the other hand and the implementation process of the Governance Framework in the Company's subsidiaries and associates starts from inception of any new business operations/investments.

Pursuant to the Governance Framework, the Company exercises its control and oversight through formulation of a governance structure that is tailored for individual subsidiaries and associates through (i) imposition of certain internal controls in key areas; and (ii) adoption of management practices and policies that are appropriate to the business nature and local situation. As a result, adequate internal controls will be adopted by subsidiaries and associates and the Company will be consulted and notified on important matters, complemented by regular reporting and assurance. Compliance with this governance structure is reported by subsidiaries and associates with significant operations on an annual basis.

BUSINESS ETHICS

Practising integrity and responsible business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company in terms of ethical practices and obliges staff to operate transparently and under the highest principles of fairness, impartiality and integrity in all of the places where the Company does business.

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. A total of four modules under the themes of Outside Work, Workplace Harassment, Proper Use of Departmental Funds and Use of Social Media had been launched from July 2020 to April 2021, which were a series of staff awareness programmes after the release of updated Code of Conduct in July 2020. As at the date of this Report, the Code of Conduct has been further updated and released in February 2022, and a new series of staff awareness programmes will be launched featuring animation videos and interactive games with real life examples to help staff members better understand the principles of the Code and if certain acts are unlawful or unacceptable. Other education programmes, including seminars and mandatory online training programmes have also been introduced to raise staff awareness.

To ensure our staff members live up to the highest ethical standards, a policy related to prevention of bribery and illegal acceptance/offer of advantages has been in place. Staff members are also encouraged to report existing or perceived violations of the Code of Conduct as well as malpractices. Proper procedures related to the whistleblowing policy of the Company are in place, enabling staff members to raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about any wrongdoings.

To assist new recruits in embracing the Company's values and ethical commitments, they are briefed on the Code of Conduct during the staff induction programme. New recruits are also required to complete the mandatory online training programmes within three months of joining the Company. The Code of Conduct is available on the Company's website (www.mtr.com.hk).

In addition, the Code of Conduct serves as a guideline for establishing a comparable ethical culture among our subsidiaries and associates in Hong Kong, Macao, Mainland China and overseas.

EXTERNAL AUDITOR

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit & Risk Committee, under its terms of reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit & Risk Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services, for complying with relevant regulatory requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 10B to the consolidated accounts on page 226 of this Annual Report.

For maintaining independence and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years in accordance with the Hong Kong Institute of Certified Public Accountants/International Federation of Accountants Code of Ethics.

KPMG confirms its independence with regard to The Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants regarding auditor independence.

COMMUNICATION WITH SHAREHOLDERS

Annual General Meeting (the "AGM")

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for the Chairman of the Company, the chairman of each Board Committee, all Members of the Executive Directorate and the External Auditor of the Company to attend AGMs to answer shareholders' questions. However, in light of the COVID-19 pandemic and the Prevention and Control of

Disease (Prohibition on Group Gathering) Regulation (Cap. 599G of the Laws of Hong Kong), only the Chairman of the Company, the chairman of each Board Committee, certain Members of the Executive Directorate and the External Auditor of the Company were invited to attend the 2021 AGM at the AGM venue and other Members of the Board and the Executive Directorate joined by electronic means.

The 2021 AGM was held on 26 May 2021 and the Company continued providing sign language interpretation in addition to simultaneous Cantonese, English and Putonghua interpretation. The Company also implemented a number of precautionary measures for the 2021 AGM, including restricting the number of shareholders who could physically attend the 2021 AGM through pre-registration and requiring submission of questions in advance of the meeting. For the benefit of the Company's shareholders who were unable to physically attend the 2021 AGM, the Company arranged a live webcast of the AGM with three choices of language (Cantonese, English and Putonghua). The webcast of the whole proceedings was also posted on the Company's website for viewing.

The 2022 AGM has been scheduled on 25 May 2022. With the aim of helping Shareholders save time and resources and reducing the Company's carbon footprint, the Company plans to hold the 2022 AGM in a hybrid format providing Shareholders with the option of attending physically or joining the AGM online. Also, the Company plans to continue providing the abovementioned simultaneous interpretation to further facilitate smooth and direct communication between the shareholders of the Company and the Company's Directors and management. The Company is committed to making available meeting facilities to enable all eligible attendees to be able to participate in the AGM.

Resolutions passed at the 2021 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2021 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2021 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 12 resolutions were passed at the 2021 AGM (with resolution no. 3 comprising four separate resolutions), each supported by over 99% of the votes cast. The full text of the resolutions is set out in the 2021 AGM Circular (which comprised Notice of the 2021 AGM) dated 16 April 2021 and the results of the AGM are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Calling General Meetings

Directors of the Company may call a general meeting of the Company.

Shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request the Directors of the Company to call a general meeting of the Company.

The requesting shareholders must state in their request the general nature of the business to be dealt with, and may include the text of a resolution to be moved at the general meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy or electronic form, which must be authenticated by the requesting shareholders.

The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests include a resolution to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. If the resolution is to be proposed as a special resolution, the Directors of the Company are required to specify the intention to propose the resolution as a special resolution in the notice of the general meeting.

If, within 21 days after the date on which the Company receives the required requests, the Directors of the Company do not proceed duly to call a general meeting, the shareholders who requested the general meeting, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a general meeting, provided that the general meeting must be called for a date not more than 3 months after the date on which the Company receives the required requests.

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association.

As regards proposing a person for election as a director, please refer to the "Appointment Procedure for Members of the Board of the Company" which is available on the website of the Company (www.mtr.com.hk).

Enquiries from Shareholders

The Company has a Shareholders' Communication Policy (available on the website of the Company (www.mtr.com.hk)) to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner. The Board reviews the said policy annually to ensure its effectiveness.

The Company's Shareholders Communication Policy has set out, amongst other things, a channel for shareholders access to the Board and management by writing to the Company Secretary of the Company.

Please also refer to the Investor Relations section (pages 100 to 101) of this Annual Report on other means of communication with shareholders.

CONSTITUTIONAL DOCUMENT

With a view to meeting the Company's obligations to safeguard the health and safety of shareholders attending general meetings while, at the same time, protecting shareholders' fundamental rights to attend such meetings, ask questions and vote, certain amendments to the Articles of Association were proposed to and approved by shareholders at the 2021 AGM, which included, inter alia, (i) providing greater flexibility for the Company in holding general meetings as hybrid meetings and conducting general meetings at more than one location where shareholders of the Company can participate using electronic facilities, in addition to/instead of attending physically; and (ii) empowering the Board and the chairman of general meetings to make necessary arrangements for managing shareholders' attendance and/or participation and/or voting at general meetings. The approved and adopted Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.

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

(i) existing Article 100 of the Articles of Association provides that the total fees paid to Directors for performing their services as Directors must not exceed (a) HK$10,000,000 a year (the "Cap"); or (b) any greater amount fixed by ordinary resolution passed at a general meeting;

(ii) the existing Cap was last adjusted and approved by Shareholders at the Company's 2014 AGM and the fees payable to each Director were last adjusted in January 2017. Since 2014 (a) the size of the Board (excluding the Executive Director who is also a member of the Executive Directorate) has increased (from 14 to 19); (b) a new Board Advisory Panel has been established in February 2022; and (c) there has generally been an upward trend in terms of the fees paid to directors of comparable companies; and

(iii) the relevant Board members are currently not being remunerated for their advisory role on the Council of the MTR Academy. Currently the annual total fees payable to Directors (excluding the Executive Director who is also a member of the Executive Directorate) has reached HK$9,970,000, which is very close to the Cap.

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

The proposed amendment will be subject to the approval of the shareholders of the Company by way of a special resolution at the forthcoming AGM. Details will be set out in the circular to be issued to shareholders together with this Annual Report.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 10 March 2022

AUDIT COMMITTEE REPORT

As disclosed in the Corporate Governance Report of this Annual Report on pages 102 to 131, the Board recently restructured the Company's Board Committees with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the new Corporate Strategy. As a result of this restructuring, the Audit Committee has, with effect from 1 February 2022, taken up certain duties of the former Risk Committee, including regularly reviewing the Company's enterprise risk management ("ERM") framework (one of the Company's key internal controls) and associated policies and procedures and assessing, on an annual basis, the effectiveness of the ERM function. The Audit Committee has therefore been renamed as the Audit & Risk Committee (referred to as the "Committee" in this Report) on the same date.

During the year ended 31 December 2021, the Committee consisted of six Non-executive Directors, five of whom were Independent Non-executive Directors of the Company. Subsequent to the restructuring of the Board Committees and as at the date of this Report, the Committee consists of seven Non-executive Directors, six of whom are Independent Non-executive Directors of the Company. None of the Committee members was or is a partner or former partner of KPMG, the Company's external auditor. Details of the Committee's membership and their attendance records during 2021 are set out on pages 119 to 121 of this Annual Report.

Following the restructuring, the Finance Director (the "FD"), the Head of Internal Audit (the "Head of IA") and the Legal & Governance Director (or their respective delegates) and representatives of the external auditor are required to attend all meetings of the Committee. The Committee meets at least once every quarter and the Chairman of the Committee or any two members of the Committee or the external auditor or the FD may request additional meetings if they consider necessary. The Committee may, upon request, approve the appointment of the Company's external auditor for undertaking non-audit work.

TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference of the Committee (the "ToR") have been updated in February 2022 following the renaming of the Committee and the amendments to its scope of responsibilities. The updated ToR are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

DUTIES OF THE COMMITTEE

In 2021, under the ToR in place at that time, the duties of the Committee primarily comprised the following:

- Overseeing the relationship with the Company's external auditor, including making recommendations to the Board on the appointment of and any change to the Company's external auditor and communicating with the external auditor on financial matters of the Company;
- Reviewing the financial information of the Company, including monitoring the integrity of financial statements;
- Overseeing the Company's financial reporting system and internal control procedures, including overseeing the adequacy of the resources and competence of the Company's accounting and financial reporting functions; and
- Overseeing the Company's Internal Audit function, including liaison with the Head of IA, approval of the annual internal audit plan of the Company and receiving periodic reports from the Head of IA.

More details on the duties of the Committee are set out in the ToR.

Further information relating to risk management and internal controls for the year ended 31 December 2021 can be found in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 123 to 127 of this Annual Report.

Reporting to the Board

The Chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom in a report to the Board after each Committee meeting.

The minutes of Committee meetings are prepared by the secretary of the meetings with details of the matters considered by Committee members and decisions reached, including any concerns raised by Committee members, dissenting views expressed and suggestions for enhancing the governance and internal control systems of the Company. The draft minutes are circulated to Committee members for comment after each meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that Committee members may have made. Minutes of Committee meetings are open for inspection by Committee members at the Company's registered office.

In advance of the first regular Committee meeting each year, the secretary of the meetings pre-agrees key agenda items for the year with the Chairman of the Committee who makes a final determination on the agenda for the Committee meetings.

WORK PERFORMED BY THE COMMITTEE IN 2021

In 2021, the Committee held four regular meetings. Representatives of the external auditor, the FD and the Head of IA and/or the Acting Head of IA attended all four regular meetings to report and answer questions about their work. In addition, relevant Members of the Executive Directorate were invited to join certain presentations to the Committee. The Committee also held private sessions with the external auditors without the presence of Management during the year.

The Committee devoted its attention to the review of the Company's annual and interim results announcement/accounts at the March 2021 and August 2021 meetings respectively, allowing more time to review and discuss the Company's internal controls, internal audit and other activities at the June 2021 and November 2021 regular meetings.

Acting through the former Risk Committee and the Committee, in 2019 the Board mandated a review of the Company's internal control and risk management systems. In 2020, an external consultant was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence ("3LoD") framework, with a view to identifying any gaps or improvements in the framework. The results of this assessment were presented to and endorsed by the former Risk Committee and the Committee in late 2020. Over the course of 2021, the Company has strengthened its Second Line of Defence through the establishment of an independent Assurance Management Department, which has been complemented by new technical and engineering Centres of Excellence and a new Strategic Assurance Review Board which serves to coordinate and focus assurance activities as well as to highlight any insights or concerns to relevant Executives. The new 3LoD model and framework was successfully piloted within the Capital Works Business Unit in late 2021 and will be rolled out in a phased manner to other business units starting in early 2022.

Other major work performed by the Committee in 2021 included:

Financial

- Reviewed the draft 2020 Annual Report and Accounts and 2021 Interim Report and Accounts, including the financial impact of the Company's railway construction projects under entrustment by the HKSAR Government, and the relevant disclosure notes in the said Accounts and made recommendations on the same for the Board's approval;
- Received updates on the valuations of the Group's Hong Kong property assets and Mainland China investment properties;
- Received updates on the latest budget status of the Company's railway construction projects under entrustment by the HKSAR Government;
- Received a preview of the 2021 interim and annual accounting and financial reporting issues;
- Received reports on the pre-project agreement cost summary of new railway projects under the Railway Development Strategy 2.0; and
- Reviewed the revised Financial Delegation Framework for submission to the Board.

Internal Audit and Internal Control

- Reviewed Risk Management and Internal Control Systems Effectiveness for 2020 for submission to the Board (focused on the internal control system, as the risk management system effectiveness was separately reviewed and endorsed by the former Risk Committee);
- Reviewed the Report on Evaluation of Effectiveness of Internal Audit Department for 2020;
- Reviewed the Continuing Connected Transactions for 2020;
- Received a review report on the cost control exercised over the Company's Hong Kong property developments;
- Reviewed Internal Audit Department's six-monthly Reports;
- Approved the 2022 Internal Audit Plan; and
- Received a report on Internal Audit coverage across the Company's Hong Kong Business and Mainland China and International Businesses.

External Auditor

- Received KPMG's reports on the salient features of the 2020 Annual Accounts and 2021 Interim Accounts respectively;
- Considered KPMG's independence and other relevant factors when approving the appointment of KPMG in providing non-audit services; pre-approved the engagement of KPMG to provide non-audit services; and noted KPMG's confirmation of independence in its audit report in respect of the 2020 Annual Accounts and 2021 Interim Accounts respectively;
- Approved KPMG's fee proposal for the 2021 annual audit and the 2022 interim review, as well as other audit related and tax services; and
- Reviewed KPMG's audit plan for the year ended 31 December 2021.

Governance

- Reviewed the report on compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements in 2020 and outstanding litigation/potential litigation; and
- Reviewed summaries of the Audit/Risk/Governance Committee Minutes of various subsidiaries of the Company.

For work performed by the former Risk Committee during 2021, please refer to the Risk Committee Report on pages 140 to 141 of this Annual Report.

Subsequent to the restructuring of the Board Committees and up to the date of this Report, the Committee has held a meeting to, among other matters, conduct a review of the Company's internal control and ERM system effectiveness for the year ended 31 December 2021, with delegated authority from the Board, and formed the view that the internal control and ERM system is overall effective and adequate.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Committee was satisfied with KPMG's work, its independence and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2022 for approval by the Company's Shareholders at the 2022 Annual General Meeting.

Dr Eddy Fong Ching
Audit & Risk Committee Chairman
Hong Kong, 10 March 2022

This Audit Committee Report has been reviewed and endorsed by the Audit & Risk Committee.

RISK MANAGEMENT

SYSTEM FEATURES

Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework which underpins their day-to-day business activities. The framework provides a simple and effective management process to:

- Identify, assess, and effectively manage operational, functional, and enterprise risks across the Company
- Prioritise resources to manage risks
- Give management a clear view of significant risks facing the Company
- Support decision making and project execution for better business performance

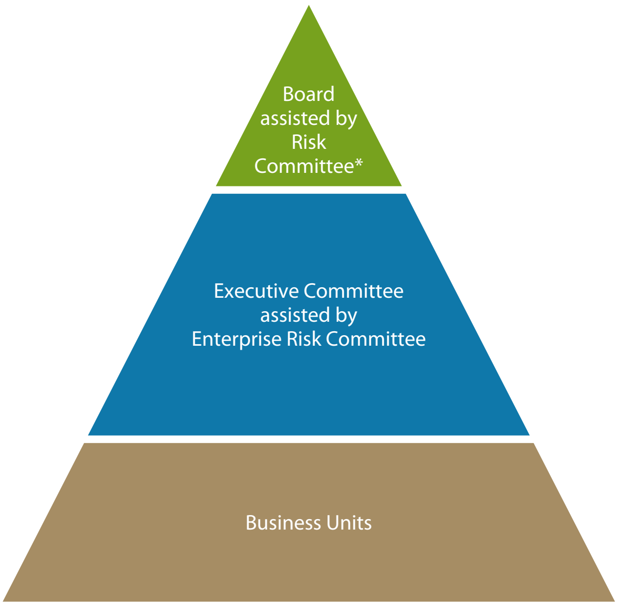
The Board, with the assistance of the Risk Committee (up to 31 January 2022 and the Audit & Risk Committee thereafter), oversees the Company's ERM framework and top risks, whereas the Executive Committee, with the support of the Enterprise Risk Committee ("ERC"), is overall accountable for the ERM policy and system implementation and continuous improvement.

The Executives provide top-down views on the key risks of the Company through discussions on quarterly enterprise risk reports, receive technical input and analysis, make informed decisions and take decisive tactical and strategic actions on the key risks that the Company faces. Three "Blue Sky" (brainstorming) workshops were held in March, June and September 2021. At the March and June workshops, the Executives examined risk scenarios arising from the new business normal during and in the post-COVID environment. At the September workshop, the Executives looked into the latest trend of cyber-attacks on critical infrastructure, including state-sponsored attacks, and also examined risks associated with talent management, retention and competence gaps.

The Company's risks are rigorously identified, assessed and managed. Each risk is evaluated on the likelihood of occurrence as well as potential consequence while taking existing controls into consideration. A risk matrix is used to determine a risk rating (E1 – E4), with E1 being a relatively high risk and E4 being a relatively low risk. The risk rating determines the required level of management attention and risk treatment effort while considering the Company's risk appetite. The highest category of risk, "E1", is subject to Board, Board Committee and Executive Committee oversight.

While encountering risk is inevitable in the course of business, the Company's appetite for risk varies and is particularly low in certain areas such as in relation to public and employee safety and the provision of a reliable transport service.

The Company's ERM system provides an important internal control in identifying, assessing and managing risks affecting the Company. As a learning organisation, the Company constantly looks for improvement opportunities through internal and external reviews and studies, as well as learning from incidents encountered during its operations. On 2 December 2021, our Island



- Exercise ongoing risk oversight
- Establish appropriate risk management strategies
- Oversee the ERM framework
- Review top risks and emerging risks
- Conduct annual review of ERM system effectiveness

- Implement and continuously improve ERM framework
- Enterprise Risk Committee
  - Chaired by Legal and Governance Director
  - Comprises representatives from key business functions
  - Steers framework implementation and improvement
  - Reviews Company's top risks and key emerging risks
  - Reports to Executive Committee and Risk Committee quarterly, and to Board every six months

- Establish arrangements and implement risk management process consistent with the Company's ERM framework and policy
- Capture identified risks in risk registers for regular review and monitoring

* *See the Risk Committee Report (pages 140 to 141 of this Annual Report) for duties and work performed by the Committee in 2021*

Line service in Hong Kong was temporarily interrupted when an advertisement panel access door came into contact with a carriage door of a passing train. A comprehensive incident investigation was immediately initiated and corrective and preventative actions, including completion of a fleet-wide check of advertising panels followed by the removal of all advertising panels of a similar design, were undertaken.

MANAGEMENT PROCESS FOR SIGNIFICANT RISKS

The Company takes proactive measures to identify, evaluate and manage significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Risk management strategies are developed for different areas including but not limited to operations, construction, finance, and environment, social and governance ("ESG"). ESG risks identified through the ERM framework are further mapped against relevant issues under ISO 26000 for materiality assessment purposes.

The ERM Team within the Legal and Governance Function maintains a list of running issues and risk drivers pertinent to the changing business and external environments, which is used to assist the ERC in identifying potential risks that may emerge.

In addition, the ERC and the Executive Committee review the Company's enterprise risk profile and brainstorm emerging risks quarterly to ensure key risks are captured, assessed and controlled. The Board also reviews these on a six-monthly basis.

Identify Risk*	Evaluate Risk	Treat Risk*	Report and Monitor Risk
• Existing businesses • Changing external environment • New projects or business ventures • New and emerging issues or trends which may pose significant risks • List of running issues and risk drivers for brainstorming • Change in laws and regulations	• Evaluate risk by estimating likelihood and consequence of the risk event • Determine risk rating using the risk matrix (E1-E4)	• Take into account risk appetite • Avoid risks where no appetite and possible to do so • Mitigate – review controls in place to evaluate adequacy and effectiveness and ensure owners in place to implement • Transfer – take out insurance to transfer risks where cost effective and efficient • Accept once mitigated to an appropriate level	• Capture risks in risk registers • Periodic ERM reports to – Enterprise Risk Committee – Executive Committee – Risk Committee – Board

* *Areas below are not exhaustive*

Since 2020, the COVID-19 pandemic has emerged as a key enterprise risk which has and continues to significantly affect the Company's businesses and has required careful management to mitigate the financial, operational, staff, customer and societal impacts. The pandemic situation remains fluid as new variants emerge and continue to pose an ongoing threat which the Company will continue to monitor and respond to. The Infectious Disease Management Team ("IDMT") coordinates corporate-wide strategic response actions according to the Infectious Disease Business Continuity Plan. This includes overseeing the stock level of Personal Protective Equipment, recommending work arrangements with a view to reducing risk and issuing notices and situation reports for staff communication. The IDMT also undertakes a regular review of the risks to the Company's business continuity arising from any Government control measures, the COVID-19 situation outside Hong Kong, the reported efficacy of vaccines and the vaccination take-up rate of staff and contractors. The Company continues to deploy resources to maintain a hygienic environment for staff and customers, including the deployment of technology, such as the Vapourised Hydrogen Peroxide ("VHP") Robot, to disinfect company premises, stations, and trains. The Company implements social distancing measures proportionate to the prevailing risk levels in organising meetings, training and events.

The long-term financial sustainability of the Company is continuously monitored by the Board and the Executive Committee. The prolonged COVID-19 pandemic has caused short-term financial impacts on the Group's businesses. With the emergence of COVID-19 variants, in particular the highly transmissible Omicron variant, the pandemic is still yet to subside globally. To mitigate the financial impacts on the Company, various cost control initiatives, including a recruitment freeze and reductions in discretionary spending, have been put in place. Further, the Group continues to maintain low gearing, even under the current difficult situation. Overall, the financial position of the Group remains sound. The Group has also been implementing transformation initiatives with a view to further improving the Group's profitability in the longer term, while the new railway and other projects in the pipeline may further contribute to the Group's long-term financial sustainability.

Key risk management focus areas for the Company include:

Effective and Balanced Relationship with Key Stakeholders	
Key Challenges	• Challenging political landscape and diverse stakeholder expectations • Uphold public confidence in light of operational incidents • Building relationships with communities and stakeholders around the new projects
Key Controls	• Implement tailored engagement plans for different stakeholders to maintain effective communication and understanding • Observe the Company's operating obligations and maintain good performance of the Company • Proactive approach to stakeholder engagement during the planning, design and construction of the new projects

People	
Key Challenges	• Talent recruitment and retention for specific disciplines, new projects and growth business • Having sufficient workforce amidst reduced headcount and staff turnover • More challenging employee relations environment due to more diverse and polarised views • Health threat to the workforce, loss of productivity and potential impact on normal operations arising from the COVID-19 pandemic
Key Controls	• Succession planning, forward manpower planning and resourcing strategies and onboarding process • Management decision to contain staff headcount but monitor closely to mitigate risks of business disruption and staff negative sentiment • Employee Engagement Survey to gauge more accurately staff sentiment • Proactive employee engagement through various communication channels • Enhanced cleaning and sterilisation at workplaces, including offices, depots, stations and trains, provision of face masks and personal protective equipment for staff, special work arrangements and implementation of business continuity arrangements • Encouraged staff to take vaccines through arrangement of an outreach programme and granting of leave resulting in an increased percentage of vaccinated staff • Robust tracking and management protocol for confirmed or close-contact cases in the workforce

New Projects Quality, Programme and Cost	
Key Challenges	• Adherence to quality, programme and cost of projects • Meeting stakeholder programme expectations on new railway projects due to insufficient Non-Traffic Hours ("NTH") possessions to facilitate the high levels of operations interface, recognising the ongoing need for asset replacement and regular maintenance on the operating railway • Negotiation of the Tung Chung Line Extension Project Agreement with Government, being the first of the new projects
Key Controls	• Establishment of the Three Lines of Defence approach to provide project assurance, including audits and assurance to ensure compliance with processes and procedures • Introduction of the new digital revamped Capital Works Project Integrated Management System • Monitoring project quality and progress against Key Performance Indicators • Stringent control of change and contingency funds • Introduction of competency and resource management framework in the Capital Works Business Unit to ensure sufficient staff with the right skills and competencies are employed on the projects • Development of a digital strategy in the Capital Works Business Unit, increasing the use of technology to deliver and manage projects, including the use of Building Information Modelling ("BIM") and digital supervision and record keeping • NTH Office established to coordinate supply and demand for track possessions across business units and to develop initiatives and procure resources to improve possession management • Proactive engagement with Government to establish the future way of delivering railway projects, including negotiation of the Tung Chung Line Extension Project Agreement

New Business Model/Technological Disruption/Competition	
Key Challenges	• Current business model disrupted by new technology • Manage competition from other transport modes
Key Controls	• Invest in technology and digital solutions to strengthen business model • Monitor competition from other transport modes and implement initiatives to maintain market share

Delivery of Growth Strategy	
Key Challenges	• Uncertain business model for future new lines in Hong Kong • Keen competition for business opportunities outside Hong Kong • Business performance below the bid models and assumptions • Heightened geopolitical/isolationist risk
Key Controls	• Ongoing engagement with Government to establish business models for new lines in Hong Kong • Maximise branding effect of the Company and stakeholder engagement • Diversify the Company's businesses in locations outside Hong Kong and conduct regular scans for new business opportunities • Formulate and implement business improvement plans for underperforming businesses

Security Threat (cyber/physical)	
Key Challenges	• Threat of cyber-attack on Operations and IT systems • Terrorist attack threat
Key Controls	• Enhanced IT network resilience to protect against cyber attacks • Implementation of cyber security protection systems for IT and railway operations systems • Enhanced security measures • Enhanced corporate security governance framework

Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The Legal and Governance Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ending 31 December 2021 to the Executive Committee, which confirmed its agreement with the review results on 10 February 2022 and to the Audit & Risk Committee on 28 February 2022, who likewise confirmed their agreement with the review results.

The Audit & Risk Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company's ERM system and considers it to be overall "effective and adequate", based on a number of review areas.

Factors considered during the review

- Review areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of subsidiaries/associates
- Risk management of subsidiaries and associates
- Benchmarking/roundtable/peer group ideas exchange
- Risk management training and promotion held in 2021

Conclusion

The ERM system was considered overall effective and adequate for the year ended 31 December 2021.

CONTINUOUS PROCESS IMPROVEMENT

Key initiatives undertaken in relation to the ERM system in 2021 include the following:

- The ERM Team continued to produce ERM Newsletters for dissemination to all staff focusing on topical issues in risk management, aiming to raise risk awareness and share good risk management practices.
- In October 2021, the Company launched its annual Risk Awareness Week "RAW" event to promote risk awareness across all levels of the organisation, including holding a hybrid seminar which emphasised the importance of managing ESG issues as business risks, a webinar on risk assessment tools, and a quiz on managing ESG-related risks and performance. The RAW events and activities were well received with over 1,600 participations.
- Acting through the Risk Committee and the Audit Committee, in 2019 the Board mandated a review of the Company's internal control and risk management systems. In 2020, an external consultant was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence ("3LoD") framework, with a view to identifying any gaps or improvements in the framework. The results of this assessment were presented to and endorsed by the Risk Committee and the Audit Committee in late 2020. Over the course of 2021, the Company has strengthened its Second Line of Defence ("2LoD") through the establishment of an independent Assurance Management Department, which has been complemented by new technical and engineering Centres of Excellence, and a new Strategic Assurance Review Board ("SARB"), which serves to coordinate and focus assurance activities as well as to highlight any insights or concerns to relevant Executives. The new 3LoD model and framework was successfully piloted within the Capital Works Business Unit in late 2021 and will be rolled out in a phased manner to other business units starting in early 2022.
- We keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing, including through participation in the UK ERM Roundtable meetings.

RISK COMMITTEE REPORT

As disclosed in the Corporate Governance Report of this Annual Report on pages 102 to 131, the Board recently restructured the Company's Board Committees with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the new corporate strategy. As a result of this restructuring, the role of the Risk Committee in reviewing the Company's ERM framework (a key internal control), associated policies and procedures and the effectiveness of the ERM function has been transferred to the Audit Committee, which has been renamed as the Audit & Risk Committee. The review of the Company's top risks and monitoring of its risk profile will be undertaken by the Board of the Company and reviews of specific key risk areas will be delegated to relevant Committees or Advisory Panels with expertise in the area under discussion. The Risk Committee has therefore been disbanded with effect from 1 February 2022.

During the year ended 31 December 2021, the Risk Committee (referred to as the "Committee" in this report) consisted of seven Non-executive Directors, five of whom were Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2021 are set out on pages 119 to 121 of this Annual Report.

DUTIES OF THE COMMITTEE

During the year ended 31 December 2021, the Committee's Terms of Reference was available on the respective websites of the Company and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee included reviewing the Company's ERM framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company's top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company's risk profile; conducting "deep dive" reviews on selected key risk areas; reviewing the effectiveness of the ERM function; and reviewing the Company's crisis management arrangements.

The Committee assisted the Board in overseeing the Company's ERM system on an ongoing basis. The Committee also reviewed the effectiveness of the Company's ERM system and reported to the Board in relation to such review. More details of the features of the ERM system and processes, the significant areas of risk being managed and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section of this Annual Report on pages 135 to 139. Each year, the Committee has agreed on a list of reviews and presentations in respect of selected key risk areas to be considered for that year taking into account the ongoing activities of the Company, and invited relevant management representatives to present on the subjects and conduct interactive discussions. The list of matters to be considered was updated over the course of the year to include any topical subjects or risks which emerged during the year. The Committee provided observations and, where applicable, recommendations to the management team based on their reviews and discussions.

The secretary of the meetings drew up agendas for each meeting in consultation with the chairman of the Committee, making reference to the list of reviews and presentations requested by the Committee, as well as any topical matters at the relevant time.

The chairman of the Committee summarised the activities of the Committee and highlighted issues arising therefrom in a report to the Board after each Committee meeting.

The minutes of Committee meetings were prepared by the secretary of the meetings with details of the matters considered by Committee Members, including recommendations and any observations raised by Committee Members. Draft minutes were circulated to Committee Members before adoption. The Committee formally adopted the draft minutes at its next subsequent meeting, after taking into account any comments which Committee Members may have had on the draft minutes.

WORK PERFORMED BY THE COMMITTEE IN 2021

In 2021, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM quarterly reports and the effectiveness of the Company's ERM system for the year ending 31 December 2020.

The Committee reviewed the Company's risk profile, top risks and key emerging risks at each of its meetings. At its first meeting, the Committee agreed on a list of "deep dive" reviews and presentations on selected key risk areas for the year, which took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the "deep dive" reviews to the Committee, with comments and recommendations provided by the Committee recorded for appropriate action by the management team.

Acting through the Committee and the Audit Committee, in 2019 the Board mandated a review of the Company's internal control and risk management systems. In 2020, an external consultant was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence ("3LoD") framework, with a view to identifying any gaps or improvements in the framework. The results of this assessment were presented to and endorsed by the Committee and the Audit Committee in late 2020. Over the course of 2021, the Company has strengthened its Second Line of Defence ("2LoD") through the establishment of an independent Assurance Management Department, which has been complemented by new technical and engineering Centres of Excellence and a new Strategic Assurance Review Board which serves to coordinate and focus assurance activities as well as to highlight any insights or concerns to relevant Executives. The new 3LoD model and framework was successfully piloted within the Capital Works Business Unit in late 2021 and will be rolled out in a phased manner to other business units starting in early 2022.

The Legal and Governance Director and the Chief Enterprise Risk Manager, representing the ERM function, attended all four meetings in 2021 to report and answer questions on ERM related matters.

The Committee considered the following key matters in 2021:

- Audit on track asset management
- Scenario Planning for new business normal and post COVID-19 environment
- Update on 3LoD implementation
- Review on cyber security and cyber threat horizon scan
- Incident response and tabletop drill exercise on ransomware threats and attacks
- Readiness and preparation for Tuen Ma Line full line opening
- Matrix organisation and associated risks
- Update on signalling replacement project risks
- Resourcing, competence and succession planning
- Supply chain and third-party business partner risk management
- Insurance summary update
- Notable cyber incidents summary overviews
- Major global rail accidents summary overviews

Andrew Brandler
(Former) Risk Committee Chairman
Hong Kong, 10 March 2022

The Risk Committee Report has been reviewed and endorsed by the Audit & Risk Committee.

CAPITAL WORKS COMMITTEE REPORT

As at the date of this Report, the Capital Works Committee of the Company (referred to as the "Committee" in this report) consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2021 are set out on pages 119 to 121 of this Annual Report.

DUTIES OF THE COMMITTEE

The Committee's Terms of Reference are available on the website of the Company (www.mtr.com.hk).

The principal duties of the Committee include overseeing any capital project of the Company in Hong Kong and outside of Hong Kong involving design and/or construction activities ("Relevant Project") with a capital value in excess of HK$10 billion and any other Relevant Project, in the event that such Relevant Project is four months or more behind programme on an overall basis; reviewing the progress of such projects, from both a programme and cost perspective; reviewing matters that could have a material impact on the quality, delivery and management of such projects, including processes and protocols adopted by the Company in supervising and managing the projects and non-compliances in relation to materials, works and processes; checking that there are adequate resources for such projects; keeping under review the Company's communication strategy and protocols, and crisis management plans in respect of such projects; and reporting to the Board on a quarterly basis or ad hoc basis if the Committee deems appropriate, in respect of the above.

Agendas for each meeting are drawn up, taking into account topical matters relating to the projects at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom in a report to the Board after each Committee meeting.

WORK PERFORMED BY THE COMMITTEE IN 2021

In 2021, the Committee held five meetings at which the following key matters were reviewed and considered:

- progress and cost status of the Company's capital projects under construction including the Shatin to Central Link and the Signalling Replacement Works on the urban lines
- planning and design work for new railway projects under the Lantau Portfolio, including the Tung Chung Line Extension, and the New Territories Portfolio, including the Tuen Ma Extension
- progress of continuous improvements under the Building Excellence programme for enhancing the capability of the Company's Capital Works Business Unit in railway project management
- half-yearly reports on the construction programme and cost status of all the awarded development projects of the Company's Property Business Unit in Hong Kong, including the Pavilia Farm at Tai Wai Station
- half-yearly reports on projects-related audits conducted by the Company's Internal Audit Department

Capital Works Director, General Manager – New Territories (Projects) and General Manager – Commercial Management attended all five Committee meetings in 2021, General Manager – Lantau (Projects) attended one Committee meeting after joining the Corporation in September 2021, to report and answer questions on progress of projects and cost related matters. Operations Director attended four meetings in 2021 to report and answer questions on Signalling Replacement Works. Property and International Business Director attended two meetings in 2021 to report and answer questions on progress of awarded Property development projects. Other executives and senior managers were also invited to attend Committee meetings when required. I thank Committee members and colleagues for their support and hard work.

Mr Cheng Yan-kee
Capital Works Committee Chairman
Hong Kong, 10 March 2022

The Capital Works Committee Report has been reviewed and endorsed by the Committee.

REMUNERATION COMMITTEE REPORT

INTRODUCTION

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the Non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's Core Incentive Scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the Non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven Non-executive Directors, four of whom are independent Non-executive Directors. The Chairman of the Remuneration Committee is an independent Non-executive Director. As necessary and with the agreement of the Chairman of the Remuneration Committee, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

The principal responsibilities of the Remuneration Committee include:

- Formulating a remuneration policy and practices that facilitate the employment of top quality talent;
- Recommending to the Board the remuneration of the Non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

The Committee's responsibilities are set out in its Terms of Reference and are consistent with the Code.

This Remuneration Committee Report has been reviewed and authorised by the Remuneration Committee of the Company.

REMUNERATION POLICY

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and the desired mix of fixed and performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are Non-executive Directors. The remuneration of Non-executive Directors is in the form of annual director's fees.

To ensure that Non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the Non-executive Directors; and
- Employment conditions elsewhere in the Company.

During the third quarter of 2020, the Company appointed an independent consultant to undertake a Board Evaluation exercise with a view to enhancing Board effectiveness and ensuring that the Board is fit for supporting the implementation of the new corporate strategy. Based on the consultant's findings and recommendations, a new Finance & Investment Committee and a new Technology Advisory Panel was established with effect from 1 February 2022. The Remuneration Committee reviewed the proposed membership fee of the said new Committee and Panel and recommended for approval by the Board in January 2022. Details of the remuneration for the Non-executive Directors are set out in note 11 to the accounts. The updated Non-executive Director fees payable in respect of each Board Committee and Panel with effect from 1 February 2022, is set out below:

	(HK$)
Board	
– Chairman	1,500,000
– Other Members	300,000
Audit & Risk Committee and Capital Works Committee	
– Chairman	150,000
– Other Members	90,000
Finance & Investment Committee, Remuneration Committee, Nominations Committee, Environmental & Social Responsibility Committee, and Technology Advisory Panel	
– Chairman	110,000
– Other Members	60,000

REMUNERATION FOR EMPLOYEES

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- variable incentives – discretionary or performance-based payment and other business-specific cash incentive plans;
- long-term incentives – e.g. restricted shares and performance shares; and
- retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and the individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and management of the Company are eligible to receive an annual performance-based cash incentive under the Company's Core Incentive Scheme ("CIS"), the terms and rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the overall CIS funding is subject to the Company's performance which is measured by both financial and non-financial factors including:

Financial Factors

- Operating profit;
- EBITDA margin; and
- Hong Kong property development profits.

Non-financial Factors

- Results from Customer satisfaction surveys;
- Fulfillment of the Customer Service Pledges; and

- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

CIS funding will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges. The final payout will then be adjusted based on the performance of individual employees.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance against the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the funding under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Performance for the Chief Executive Officer is assessed by the Chairman, and the individual performance ratings for other Members of the Executive Directorate are determined by the Chief Executive Officer.

Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 25-35% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2021, discretionary awards were provided to non-managerial staff with competent or above performance, as a recognition of their contribution to the Company's performance and achievements in the past year and to motivate staff to strive for continuous business growth. In addition, a one-off special award was granted to all staff in 2021 as a token of appreciation for their hard work to keep Hong Kong moving in the past year, in spite of the challenges arising from the pandemic.

Long-Term Incentives

During 2021, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme (formerly the "2014 Share Incentive Scheme").

(i) 2007 Share Option Scheme

The 2007 Share Option Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007 and terminated on 6 June 2014. Under the terms of the 2007 Scheme, no new grant of options could be made after 5:00 p.m. on 6 June 2014. The Scheme includes a provision which specifies that options cannot be exercised under the Scheme unless the Company has satisfied each of the three Key Performance Requirements included in the Operating Agreement in order for any options to be exercised.

Options exercised in respect of each Member of the Executive Directorate as at 31 December 2021 under the 2007 Scheme are set out under the paragraph "Directors' Interests in Shares and Underlying Shares of the Company" of the Report of the Members of the Board. As at 31 December 2021, all outstanding options granted under the 2007 Scheme had been exercised and/or lapsed.

Details of the 2007 Scheme and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 11 and 42 to the accounts.

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Share Option Scheme on 6 June 2014. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the Executive Share Incentive Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2021. Award holders are entitled to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee and vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee).

Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed with reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time. For the current performance share grant made in April 2021, covering 2021 to 2023, performance metrics include financial metrics and operational and strategic metrics to support the Company's growth and transformation, Environmental, Social and Governance commitments and project delivery in Hong Kong.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

Details of the Executive Share Incentive Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme are set out in notes 11 and 42 to the accounts.

Retirement Schemes

In Hong Kong, the Company operates four retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", with details as follows:

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times year of service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

The Members of the Executive Directorate who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other Members of the Executive Directorate are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Dr. Jacob Kam, the Company's Chief Executive Officer effective from 1 April 2019, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, Macao, Mainland China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPFSO and, in the case of subsidiaries in Macao, Mainland China and overseas, their respective local laws and regulations.

WORK PERFORMED BY THE REMUNERATION COMMITTEE DURING THE YEAR

- Approved the 2020 Remuneration Committee Report as incorporated in the 2020 Annual Report;
- reviewed and approved payouts under the Company's performance-based CIS for the 2020 performance period;
- reviewed and approved restricted share and/or performance share awards for eligible employees under the Executive Share Incentive Scheme;
- conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2021;
- conducted review on the remuneration packages for Members of the Executive Directorate, as appropriate;
- endorsed revisions to the Remuneration Committee's terms of reference;
- reviewed and approved the MTR Pay Trend Survey methodology and the list of benchmarking companies; and
- endorsed the membership fees payable to non-executive Directors under the new Board Committee structure

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 11 to the accounts.

in HK$ million	2021	2020
Fees	**10.2**	9.3
Base salaries, allowances and other benefits-in-kind	**56.5**	54.2
Variable remuneration related to performance	**13.6**	3.5
Retirement scheme contributions	**6.1**	6.6
Total	**86.4**	73.6

Please refer to note 11 to the accounts for information relating to the five highest paid employees of the Company for the year ended 31 December 2021.

Dr Dorothy Chan Yuen Tak-fai
Remuneration Committee Chairperson
Hong Kong, 21 February 2022

BOARD AND EXECUTIVE DIRECTORATE

Full biographies of Members of the Board and the Executive Directorate are available on the Company's website (www.mtr.com.hk).

MEMBERS OF THE BOARD

Dr Rex Auyeung Pak-kuen*^

Age 69

Chairman since 1 July 2019
NED since 7 March 2019
Environmental & Social Responsibility Committee *(Chairman)*
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Dr Auyeung is the vice chairman and an independent non-executive director of C-MER Eye Care Holdings Limited, and an independent non-executive director of China Construction Bank (Asia) Corporation Limited.

Dr Auyeung has over 40 years of experience in the insurance industry in Canada and Hong Kong. Before his retirement in June 2017, Dr Auyeung was Chairman – Asia of the Principal Financial Group Inc. ("PFG"), a Fortune 500 company, responsible for PFG's overall businesses in Asia.

Dr Auyeung also actively serves the public sector and is currently an observer of the Independent Police Complaints Council Observers Scheme, and a member of the Board of Directors of the Investor and Financial Education Council under the Securities and Futures Commission. In addition, he is a board member of Bo Charity Foundation (Food Angel) and a convenor of the Advisory Committee of the Jockey Club Community eHealth Care Project.

Dr Auyeung was previously an independent non-executive director of HSBC Provident Fund Trustee (Hong Kong) Limited, Standard Life (Asia) Limited and Sompo Insurance China Co., Ltd., the chairman of Hong Kong Strategy for Financial Literacy Sub-committee on Stakeholder Coordination and Collaboration, a member of the Independent Review Committee on Hong Kong's Franchised Bus Service, the chairman of the Council of Lingnan University and the Senior Strategy and Business Advisor at Athenex Inc., a company listed on NASDAQ in the United States of America.

Dr Jacob Kam Chak-pui*^

Age 60

Chief Executive Officer ("CEO") since 1 April 2019
Environmental & Social Responsibility Committee *(Member)*

Dr Kam joined the Company in 1995 and had held various management positions in the Operations, Projects and Mainland China and International Business Divisions. Before the CEO appointment, he was the Operations Director between January 2011 and April 2016 and the Managing Director – Operations and Mainland Business from May 2016.

As the CEO, Dr Kam is responsible for all performance of the Company and its group companies, both in and outside Hong Kong.

Dr Kam is a member of the Hong Kong Quality Assurance Agency Governing Council, a member of the board of directors of The Community Chest of Hong Kong, a member of the General Committee of The Hong Kong General Chamber of Commerce, and a council member of The Hong Kong Management Association. He is also an Honorary Chairman of the International Association of Public Transport (UITP).

Dr Kam qualified as a Chartered Engineer in the United Kingdom in 1989.

Andrew Clifford Winawer Brandler

Age 65

INED since 17 May 2017
Finance & Investment Committee *(Chairman)*
Audit & Risk Committee *(Member)*

Mr Brandler is the chairman of Sir Elly Kadoorie & Sons Limited. He was formerly the group managing director and chief executive officer of CLP Holdings Limited from 2000 to 2013, an executive director between October 2013 and April 2014, and currently is a non-executive director of that company. Mr Brandler is also the non-executive deputy chairman of The Hongkong and Shanghai Hotels, Limited, and a non-executive director of Tai Ping Carpets International Limited. He is also currently the Chairman of the Board of Governors of the Chinese International School.

Prior to joining CLP Holdings Limited in 2000, Mr Brandler was an investment banker, his last position being Head of Asia Pacific Corporate Finance at Schroders based in Hong Kong. He is the former chairman of The Hong Kong General Chamber of Commerce and a member of the Operations Review Committee of the Independent Commission Against Corruption.

Mr Brandler is a member of The Institute of Chartered Accountants in England and Wales.

Dr Bunny Chan Chung-bun

Age 64

INED since 20 May 2020
Environmental & Social Responsibility Committee *(Member)*
Finance & Investment Committee *(Member)*

Dr Chan has over 30 years of experience in the garment industry and is the founder and chairman of Prospectful Holdings Limited. He is an independent non-executive director of Li Ning Company Limited, Great Harvest Maeta Group Holdings Limited, Speedy Global Holdings Limited and Glorious Sun Enterprises Limited. Dr Chan is currently a member of the Hong Kong delegation to the National People's Congress of the People's Republic of China. He is also the chairman and a founding member of the Hong Kong Army Cadets Association, a member of the Court of Hong Kong Metropolitan University ("HKMU") (formerly The Open University of Hong Kong ("OUHK")), and an advisor to Our Hong Kong Foundation.

Dr Chan was appointed to the Commission on Youth in 2004 and was the chairman from 2009 to 2015. He set up the Hong Kong Association of Youth Development in 2007 and was the former chairman of the Kwun Tong District Council and the vice-chairperson of the Community Care Fund Task Force of the Commission on Poverty. Dr Chan also served on the Financial Reporting Council, the Social Welfare Advisory Committee, the Personal Data (Privacy) Advisory Committee, and the Council for Sustainable Development.

Walter Chan Kar-lok^

Age 68

INED since 22 May 2019
Nominations Committee *(Member)*
Capital Works Committee *(Member)*

Mr Chan has been a practising lawyer for over 40 years and is currently a consultant of Messrs. So, Lung & Associates, Solicitors and Messrs. Rowland Chow, Chan & Co., Solicitors. He is also a China Appointed Attesting Officer. Mr Chan currently is the chairman of The Hong Kong Housing Society, a convenor-cum-member of the Pensions Appeal Panel under the Civil Service Bureau, and a member of the Advisory Committee on Post-service Employment of Civil Servants.

Mr Chan was formerly the chairman of Appeal Tribunal (Buildings), a non-executive director of the Urban Renewal Authority, and a member of the Housing Authority, the Town Planning Board, the Harbourfront Commission and the Board of Advisors of Radio Television Hong Kong.

Dr Pamela Chan Wong Shui

Age 75

INED since 4 July 2013
Nominations Committee *(Chairman)*
Environmental & Social Responsibility Committee *(Member)*

Dr Chan is chairman of The Insurance Complaints Bureau, The Boys' and Girls' Clubs Association of Hong Kong and the Advisory Committee of the Department of Social Behavioural Sciences of City University of Hong Kong. She is a member of the Judicial Officers Recommendation Commission, third vice president of the board of The Community Chest of Hong Kong and an independent director of the Travel Industry Council of Hong Kong. Dr Chan is also patron of Consumers International.

Dr Chan was chief executive of the Consumer Council, chairman of the Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council and the Court, chairman of the governing committee of Princess Margaret Hospital, and a member of the Law Reform Commission of Hong Kong, Hospital Authority, The Hong Kong Housing Authority, Estate Agents Authority and the Private Columbaria Appeal Board.

Dr Dorothy Chan Yuen Tak-fai*

Age 72

INED since 4 July 2013
Remuneration Committee *(Chairman)*
Capital Works Committee *(Member)*

Dr Chan is currently the Deputy Director (Administration and Resources), Head of Centre for Logistics & Transport and advisor of the International College of the HKU School of Professional and Continuing Education, and a council member of HKU SPACE Po Leung Kuk Stanley Ho Community College. She is an independent non-executive director of AMS Public Transport Holdings Limited, the chairperson of the Sustainable Agricultural Development Fund Advisory Committee, a director of TWGHs E-Co Village Limited, a Strategy Advisor to the Serco Group (HK) Limited, a member of the Board of Governors of the Hong Kong Institute for Public Administration, and the Honorary Fellow and an advisor to the Council of Trustees of the Chartered Institute of Logistics and Transport ("CILT").

Dr Chan was a board member of the Logistics and Supply Chain MultiTech R&D Centre Limited, a member of the Social Welfare Advisory Committee and the Advisory Council on Environment of the HKSAR Government, and the International President, the Global Chairperson and a Global Advisor for Women in Logistics and Transport in CILT. She was previously the Deputy Commissioner for Transport of Government from 1995 to 2002. From 2000 to 2002, Dr Chan was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company.

Cheng Yan-kee*^

Age 67

INED since 22 May 2019
Capital Works Committee *(Chairman)*
Remuneration Committee *(Member)*

Mr Cheng is a practising civil and structural engineer, and an Authorised Person and a Registered Structural Engineer under the Buildings Ordinance. He is also a Class 1 Registered Structural Engineer in the People's Republic of China.

Mr Cheng currently is a director of H. K. Cheng & Partners Limited. He is also a member of the Advisory Committee on Post-service Employment of Civil Servants and the Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials.

Mr Cheng formerly was an independent non-executive director of K. H. Group Holdings Limited, President of the Institution of Structural Engineers, and Chairman of both the Council of the Hong Kong Baptist University and the Corruption Prevention Advisory Committee under the Independent Commission Against Corruption. He was also a member of the Hospital Authority, Town Planning Board and Hong Kong Housing Authority.

Dr Anthony Chow Wing-kin#

Age 71

INED since 18 May 2016
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Dr Chow is a solicitor admitted to practise in Hong Kong and England and Wales. He has been a practising solicitor in Hong Kong for over 34 years and is currently the Senior Consultant and Global Chairman of the law firm Messrs. Guantao & Chow Solicitors and Notaries. Dr Chow is a China Appointed Attesting Officer and an arbitrator of the South China International Economic and Trade Arbitration Commission/Shenzhen Court of International Arbitration. He is currently a non-executive director of Kingmaker Footwear Holdings Limited, an independent non-executive director of S. F. Holding Co., Ltd., Ping An Healthcare and Technology Company Limited and Beijing North Star Company Limited, and an independent director of OneConnect Financial Technology Co., Ltd.

Dr Chow was previously a non-executive director of China City Construction Group Holdings Limited, an independent non-executive director of Fountain Set (Holdings) Limited and the president of The Law Society of Hong Kong. He is also the former chairman of the Process Review Panel for the Securities and Futures Commission of Hong Kong and the board of stewards of The Hong Kong Jockey Club, and the former deputy chairman of the Council of The Hong Kong Academy for Performing Arts.

Dr Eddy Fong Ching*#

Age 75

INED since 13 January 2015
Audit & Risk Committee *(Chairman)*
Finance & Investment Committee *(Member)*

Dr Fong is currently an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited.

Dr Fong was the non-executive chairman of the Securities and Futures Commission from 2006 to 2012 and the past chairman of both the Council of The Open University of Hong Kong ("OUHK") (now known as Hong Kong Metropolitan University ("HKMU")) and the Process Review Panel in relation to the Regulation of Mandatory Provident Fund Intermediaries. His other past public duties include director of The Hong Kong Mortgage Corporation Limited, the Mandatory Provident Fund Schemes Authority and the Exchange Fund Investment Limited; a member of The Hong Kong Housing Authority and the Greater Pearl River Delta Business Council; and a council member of The Hong Kong Academy for Performing Arts. Dr Fong was also a senior audit partner with PricewaterhouseCoopers specialising in capital markets work in Hong Kong and the Mainland of China until his retirement in 2003.

Dr Fong is a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Hui Siu-wai

Age 65

INED since 26 May 2021
Audit & Risk Committee *(Member)*
Capital Works Committee *(Member)*

Mr Hui joined the Hong Kong Government in 1978 as a student building surveyor. He worked in a wide range of posts in the former Buildings Ordinance Office, the former Building Development Department, the former Buildings and Lands Department and the Buildings Department. In 2001, he was seconded to the Security Bureau of the HKSAR Government and assumed the position of the Principal Assistant Secretary/Special Duties, with the primary responsibility of overseeing aviation security. Before his retirement, Mr Hui was the Director of Buildings between 2014 and 2017.

Mr Hui was appointed by the HKSAR Government and served as a member of the Expert Adviser Team for the Shatin-to-Central Link Project between 2018 and 2020.

Mr Hui has been a member of the Hong Kong Institute of Surveyors since 1984.

Dr Rose Lee Wai-mun

Age 69

INED since 16 May 2018
Audit & Risk Committee *(Member)*
Finance & Investment Committee *(Member)*

Dr Lee is an Independent Non-Executive Director of CK Hutchison Holdings Limited and Swire Pacific Limited. She is also a member of the Election Committee of the 13th National People's Representative Meeting, a Board Member of the West Kowloon Cultural District Authority, and Vice Patron of the Community Chest of Hong Kong. Dr Lee is a Fellow of The Hong Kong Institute of Bankers.

Dr Lee was previously Vice-Chairman and Chief Executive of Hang Seng Bank Limited, Group General Manager of HSBC Holdings plc, Director of The Hongkong and Shanghai Banking Corporation Limited and Chairman of the Board of Governors of The Hang Seng University of Hong Kong. In addition, she was previously Vice President of The Hong Kong Institute of Bankers, Board Member and Deputy Chairman of the Executive Committee of The Community Chest of Hong Kong, and a member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council.

Jimmy Ng Wing-ka^

Age 52

INED since 22 May 2019
Nominations Committee *(Member)*
Environmental & Social Responsibility Committee *(Member)*

Mr Ng is a solicitor admitted to practise in Hong Kong and currently is a partner of Messrs. Tung, Ng, Tse & Lam, Solicitors. He is a Legislative Council member representing the Industrial (Second) Functional Constituency. Mr Ng is an independent non-executive director of Yanchang Petroleum International Limited and Glorious Sun Enterprises Limited. He is also the chairman of the Hong Kong – Taiwan Business Co-operation Committee and the HKSAR Passports Appeal Board, a vice-chairman of the Independent Police Complaints Council, a non-executive director of Mandatory Provident Fund Schemes Authority, a director of Hong Kong Science and Technology Parks Corporation, and a member of the Court of The University of Hong Kong, the Council of The Hong Kong Polytechnic University, the Competition Commission and the Chinese People's Political Consultative Conference of Chongqing City, the People's Republic of China.

Mr Ng was formerly an independent non-executive director of China Weaving Materials Holdings Limited and a member of the Small and Medium Enterprises Committee of the Trade and Industry Department.

Benjamin Tang Kwok-bun#

Age 70

INED since 14 October 2014
Remuneration Committee *(Member)*
Technology Advisory Panel *(Member)*

Mr Tang is currently a member of the Communications Authority and Chairman of its Broadcast Complaints Committee.

Mr Tang joined the Hong Kong Civil Service in 1974. From the late 1990s to early 2000s, he served as the Government Printer and the Commissioner of Insurance. Mr Tang was appointed by the Central Government of the People's Republic of China as the Director of Audit of the HKSAR in December 2003 until he retired in July 2012. He was appointed a Commissioner of the Commission of Inquiry Into the Collision of Vessels Near Lamma Island in 2012, and the Commission's report was presented to the Chief Executive in April 2013. Mr Tang was the chairman of the Operations Review Committee and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption. He was also an independent non-executive director of BE Reinsurance Limited and United Builders Insurance Company, Limited.

Adrian Wong Koon-man

Age 57

INED since 26 May 2021
Audit & Risk Committee *(Member)*
Finance & Investment Committee *(Member)*

Mr Wong is an executive director and Chief Operations Officer of VL Asset Management Limited and a director of Abercan Limited. He is also a board member of Airport Authority Hong Kong and Aviation Security Company Limited, the chairman of the Corruption Prevention Advisory Committee and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, and a member of the Travel Industry Authority.

Mr Wong previously worked for commercial law firms in England and in Hong Kong and specialised in listings and mergers and acquisitions in the Greater China region. He was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited, a member of the Communications Authority, a member of the Air Transport Licensing Authority and a director of the Urban Renewal Fund.

Johannes Zhou Yuan

Age 66

INED since 17 May 2017
Technology Advisory Panel *(Chairman)*
Audit & Risk Committee *(Member)*

Mr Zhou is an independent director of Citibank (China) Co., Ltd.

Mr Zhou retired in June 2016 as Chief Strategic Officer of China Investment Corporation ("CIC"). He joined CIC in 2008 and held a variety of portfolios of responsibilities including alternative assets, direct investments, asset allocation and finance/treasury. Prior to that, Mr Zhou led Asia business development at Chicago Mercantile Exchange. From 2001 to 2005, he worked as a financial researcher and consultant, working on assignments ranging in asset management, private equity, hedge funds, risk models, financial software architecture, and financial market reform, with consulting work done for the China Securities Regulatory Commission, Shanghai Futures Exchange and a number of western firms. From 1998 to 2001, Mr Zhou was chief executive officer of HKFE Clearing Corporation Limited and concurrently chief financial officer of Hong Kong Futures Exchange Limited, responsible for the Exchanges's finance, treasury, risk and clearing functions. He was UBS AG's China country head from 1994 to 1998, responsible for the bank's investment banking, commercial banking, asset management and private banking businesses in China. From 1988 to 1994, Mr Zhou worked at State Street Bank in Boston, where he founded and managed the research department. Prior to that, he taught at Brandeis University, United States of America.

Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury)

Age 45

NED since 1 June 2020
Remuneration Committee *(Member)*
Finance & Investment Committee *(Member)*

Mr Hui sits on the boards of several public bodies, including Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, The Hong Kong Mortgage Corporation Limited and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation and an ex-officio member of the Financial Services Development Council ("FSDC") in his official capacity. He is also, in his official capacity, a director of Hongkong International Theme Parks Limited. In addition, Mr Hui is a member of the Democratic Alliance for the Betterment and Progress of Hong Kong.

Mr Hui was an Administrative Officer in the HKSAR Government from 1999 to 2003 and held different positions in the Economic Development Branch, the Office of the HKSAR Government in Beijing and the Home Affairs Department. After he left the HKSAR Government in 2003, Mr Hui worked in the banking sector before joining Hong Kong Exchanges and Clearing Limited ("HKEx") in 2006. From 2006 to 2018, Mr Hui held various senior positions in the Market Development Division and Listing Division in HKEx and was the Managing Director at the time he left HKEx. He was the Executive Director of FSDC from 2019 to 2020.

Alternate Directors

(i) Joseph Chan Ho-lim *(since 1 June 2020)*
(ii) Cathy Chu Man-ling *(since 9 August 2021)*
(iii) Maurice Loo Kam-wah *(since 10 August 2020)*

Secretary for Transport and Housing@ (Frank Chan Fan)

Age 64

NED since 1 July 2017
Nominations Committee *(Member)*
Remuneration Committee *(Member)*

Mr Chan joined the Government as Assistant Electronics Engineer in 1982 and was promoted to Chief Electronics Engineer in 2001, and to Government Electrical and Mechanical Engineer in 2005. He was the Director of Electrical and Mechanical Services and the General Manager of the Electrical and Mechanical Services Trading Fund since 2011. Mr Chan had been seconded to work in different organisations, such as the provisional Hospital Authority and the 2008 Beijing Olympic Equestrian Events.

Mr Chan is the Chairman of The Hong Kong Housing Authority, Hong Kong Maritime and Port Board, Hong Kong Logistics Development Council and Aviation Development and Three-runway System Advisory Committee. He is also a board member of Airport Authority Hong Kong and The Hong Kong Mortgage Corporation Limited; as well as member of the Council for Sustainable Development and Youth Development Commission.

Mr Chan is a Fellow of the Hong Kong Institution of Engineers and an Honorary Fellow of the Institution of Mechanical Engineers, UK.

Alternate Directors

(i) Under Secretary for Transport and Housing
(Dr Raymond So Wai-man since 25 September 2017)

(ii) Permanent Secretary for Transport and Housing (Transport)
(Mable Chan since 1 August 2020)

(iii) Deputy Secretaries for Transport and Housing (Transport)
(Amy Wong Pui-man since 14 December 2020 and Sharon Yip Lee Hang-yee since 15 July 2019)

Permanent Secretary for Development (Works)@ (Ricky Lau Chun-kit)

Age 55

NED since 8 October 2021
Nominations Committee *(Member)*
Capital Works Committee *(Member)*

Mr Lau joined the Hong Kong Government in March 1992 and was the Director of Civil Engineering and Development from October 2018 to October 2021.

Mr Lau is a fellow of The Hong Kong Institution of Engineers and the Institution of Civil Engineers, United Kingdom.

Alternate Director

Deputy Secretary for Development (Works)3
(Francis Chau Siu-hei since 3 March 2022)

Commissioner for Transport@ (Rosanna Law Shuk-pui)

Age 54

NED since 9 September 2020
Audit & Risk Committee *(Member)*
Technology Advisory Panel *(Member)*

Miss Law, in her official capacity as the Commissioner for Transport, also serves as a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company Limited, Western Harbour Tunnel Company Limited and Route 3 (CPS) Company Limited.

Miss Law joined the Hong Kong Government in 1989 and has served in various policy bureaux and departments, including as the Principal Assistant Secretary for the Environment, Transport and Works (Transport) (later renamed to the Principal Assistant Secretary for Transport and Housing (Transport)) from March 2007 to August 2009, the Deputy Commissioner for Tourism from August 2010 to September 2016, and the Deputy Secretary for Constitutional and Mainland Affairs from September 2016 to September 2020.

Alternate Director

Deputy Commissioner for Transport/Transport Services and Management
(Macella Lee Sui-chun since 1 September 2016)

Notes:
- * *Also a director of the Company's subsidiary(ies).*
- ^ *Up for retirement by rotation and eligible for re-election at the Company's forthcoming Annual General Meeting ("AGM").*
- # *Director who will retire after the conclusion of the Company's forthcoming AGM.*
- @ *Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance, who is not required to retire by rotation under the Articles of Association.*

INED : independent non-executive director
NED : non-executive director

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

A composite photograph at the Ho Man Tin Station.

MEMBERS OF THE EXECUTIVE DIRECTORATE

Dr Jacob Kam Chak-pui*

Age 60

Chief Executive Officer (since 1 April 2019)
Environmental & Social Responsibility Committee *(Member)*

His biography is set out on page 148.

Adi Lau Tin-shing*

Age 62

Managing Director – Mainland China Business and Global Operations Standards (since 1 July 2021)

Mr Lau joined the Company in 1982 and has held various management positions related to the design, construction, operations and maintenance of the

Company's railway system in Hong Kong and the Company's rail business in the Mainland of China. Prior to his current position, Mr Lau took up the position of Operations Director in May 2016, and was the Managing Director – Operations and Mainland Business between January 2020 and June 2021.

Mr Lau is responsible for managing and overseeing the Company's rail and property businesses in the Mainland of China, and the global railway operations standards to ensure the sharing and learning of best practices across the Company's railway operations in different cities. He is also responsible for the Company's Macao business portfolio and accountable for the business results of the Mainland China and Macao businesses.

Mr Lau is the president of the China Hong Kong Railway Institution and the Community of Metros, the chairman of the International Association of Public Transport (UITP) Metropolitan Railways Committee, senior vice president of both the UITP Asia-Pacific Committee and Asia-Pacific Division, and a member of the UITP Policy Board.

Mr Lau is a Chartered Engineer, a Corporate Member of the Institution of Civil Engineers in the United Kingdom and a Fellow of The Hong Kong Institution of Engineers.

Roger Francis Bayliss

Age 64

Capital Works Director (since 22 February 2021)

Mr Bayliss joined the Company as Projects Director in March 2019.

Mr Bayliss is responsible for leading the Capital Works Business Unit, overseeing the Company's capital works portfolio covering new railway extensions and operations projects.

Mr Bayliss has over 40 years of experience in project management, implementation and delivery of large scale infrastructure and railway projects in Hong Kong, the Mainland of China and the United Kingdom. Between 1992 and 2004, he worked for the Company and managed the completion of several construction contracts leading to the delivery of the Lantau Airport Railway, the Tseung Kwan O Extension and Ngong Ping 360. In 2004, Mr Bayliss joined BAA plc. (now known as LHR Airports Limited), prior to joining Skanska UK in 2007. Before joining the Company, he was the Senior Vice President Operational Efficiency (responsible for driving operational efficiency and the development of a digital business strategy) at Skanska AB, a company listed in Sweden.

Mr Bayliss is a Fellow of The Hong Kong Institution of Engineers and the Institution of Civil Engineers in the United Kingdom.

Margaret Cheng Wai-ching*

Age 56

Human Resources Director (since 1 June 2016)
Environmental & Social Responsibility Committee *(Member)*

Ms Cheng is responsible for all of the Company's human resources and administration affairs. She is currently the President of MTR Academy (Acting).

Ms Cheng is a seasoned human resources practitioner with rich senior management experience. She took up different human resources roles in Citibank, N.A. between 1993 and 1997, and was with JP Morgan as Vice President, Human Resources between 1997 and 2001. From 2001 to 2013, Ms Cheng was with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and was Head of Human Resources, Hong Kong and Global Business, Asia Pacific when she left HSBC. Before joining the Company, she was Group Head of Human Resources of Hong Kong Exchanges and Clearing Limited.

Ms Cheng is serving various public duties at the HKSAR Government, including acting as the vice chairman of the Cross-Industry Training Advisory Committee for the Human Resource Management Sector under the Qualifications Framework of Education Bureau; a member of the Standing Committee on Directorate Salaries and Conditions of Service; a member of the Labour Advisory Board Committee on Employment Services of Labour Department; and a member of the Panel of Arbitrators appointed under the Labour Relations Ordinance. She is also the vice-chairman of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, a member of the Hospital Authority, a council member of The Hong Kong Management Association, and a member of the Employees Retraining Board.

Ms Cheng is currently the President and a Fellow Member of the Hong Kong Institute of Human Resource Management.

Linda Choy Siu-min

Age 51

Corporate Affairs and Branding Director
(since 1 July 2021)

Ms Choy joined the Company as the Corporate Affairs Director in March 2020.

Ms Choy is responsible for overseeing the Company's corporate communications, corporate relations and branding functions.

Ms Choy has extensive experience in public affairs and communications, public engagement and journalism. She started her career in 1992 as a reporter for the South China Morning Post ("SCMP") and later joined the HKSAR Government as an Administrative Officer, holding a number of positions in various policy bureaux between 1998 and 2004. Ms Choy rejoined SCMP as its China News Editor in 2004 and was later promoted to News Editor before she took on the position of Director, Government Relations of Hong Kong Disneyland Management Limited ("HKDML") in 2007. In 2008, she left this role and was appointed by the HKSAR Government as the Political Assistant to the Secretary for the Environment until 2012, after which she rejoined HKDML as its Vice President, Communications & Public Affairs, a position which she held from 2013 to January 2020.

Ms Choy is currently an Honorary Advisor of Make-A-Wish Foundation of Hong Kong Limited, a Non-official Member of both the Community Involvement Committee on Greening and the Lantau Development Advisory Committee, and a Member of the Board of Advisors of Radio Television Hong Kong, the Public Libraries Advisory Committee, and the Advisory Board of The Hong Kong Red Cross. She was formerly the President of the Hong Kong Association of Amusement Parks and Attractions Limited and the Vice-chairwoman of Lantau Development Alliance Limited.

Herbert Hui Leung-wah*

Age 59

Finance Director (since 2 July 2016)

Mr Hui joined the Company in June 2016.

Mr Hui is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, corporate finance, and the treasury function. He also leads the Company's investor relations as well as materials and stores functions.

Mr Hui has extensive corporate finance and investment banking experience. He began his career at Morgan Stanley Asia Limited in 1988. Mr Hui left in 1990 to pursue a career in corporate finance with Wardley Corporate Finance Limited (later known as Corporate, Investment Banking and Markets Division of The Hongkong and Shanghai Banking Corporation Limited) and was the Chief Operating Officer, Investment Banking, Asia Pacific and Co-Head, Corporate Finance Execution when he left in 2004. He was General Manager – Corporate Finance of the Company from 2004 to 2011, and the Chief Financial Officer of Digital China Holdings Limited from 2011 to 2012. Mr Hui was the Chief Financial Officer of K. Wah International Holdings Limited before re-joining the Company in 2016.

Mr Hui is a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service of the HKSAR Government and a director of HKBU Chinese Medicine Hospital Company Limited.

Mr Hui is a Chartered Financial Analyst.

Dr Tony Lee Kar-yun*

Age 61

Operations Director (since 1 January 2020)

Dr Lee joined the Company in 1991 and has held various management positions related to the design, construction, operations and maintenance of the Company's railway system in Hong Kong.

Dr Lee is responsible for managing the Company's railway related operations in Hong Kong.

Dr Lee is a Chartered Engineer and is a Member of The Hong Kong Institution of Engineers, The Institution of Engineering and Technology and The Hong Kong Institute of Directors. He is also a Member of the Advisory Committee of the Department of Electrical and Electronic Engineering of The University of Hong Kong and the Engineering Discipline Advisory Board of the Hong Kong Institute of Vocational Education.

Gillian Elizabeth Meller*

Age 49

Legal and Governance Director (since 22 February 2021)
Environmental & Social Responsibility Committee *(Member)*

Ms Meller joined the Company in August 2004 as Legal Adviser. Prior to her current position, Ms Meller was the Legal Director & Secretary between September 2011 and June 2016, and the Legal and European Business Director between July 2016 and February 2021.

Ms Meller is responsible for overseeing the Company's legal, insurance, governance and risk management, environmental and social responsibility, and central procurement and supply chain functions. She is also responsible for leading the Company's assurance function with the aim of providing a strengthened second line of defence across key risk areas of the Company.

Before joining the Company, Ms Meller was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom.

Ms Meller is a vice chairman of the Legal Committee of The Hong Kong General Chamber of Commerce, and a member of the Standing Committee on Company Law Reform.

Ms Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is a representative of the China/Hong Kong Division on the Council of the international Chartered Governance Institute, a former President of The Hong Kong Chartered Governance Institute, and a Fellow of both of these institutes.

David Tang Chi-fai*

Age 57

Property and International Business Director (since 22 February 2021)

Mr Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business. Prior to his current position, Mr Tang was appointed as the Property Director in October 2011 and the Property and Australian Business Director in October 2020, and before that he had held various senior management positions in the then Legal and Procurement Division, the China and International Business Division, and the Property Division.

Mr Tang is responsible for all of the property development projects, asset and leasing management of investment properties (including shopping malls and offices), and property management business of the Company in Hong Kong, as well as overseeing the Company's international businesses. He is also accountable for the business results of the Hong Kong property and international businesses portfolios.

Before joining the Company, Mr Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had close to 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong after starting his career as a Group Trainee of George Wimpey Plc.

Mr Tang is an adjunct professor in the Department of Real Estate and Construction at The University of Hong Kong. He is also a former co-opted member of the Public Private Partnership Projects Committee under the Board of the West Kowloon Cultural District Authority and a former non-executive director of the Urban Renewal Authority of the HKSAR Government.

Mr Tang is a Chartered Surveyor.

Jeny Yeung Mei-chun*

Age 57

Hong Kong Transport Services Director (since 1 July 2021)

Ms Yeung joined the Company in November 1999. Prior to her current position, Ms Yeung was the Commercial Director between September 2011 and June 2021. She is currently the Chairlady of Ngong Ping 360 Limited, and a Director of Octopus Holdings Limited and of two members of the Octopus Holdings Limited group.

Ms Yeung heads the Hong Kong Transport Services Business and has overall responsibility for the Company's railway transport operations and its commercial businesses in Hong Kong. These include the metro network, the Airport Express and the High Speed Rail.

Before joining the Company, Ms Yeung held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

Ms Yeung is a member of the Advisory Committee on Enhancing Self-Reliance Through District Partnership Programme, the Advisory Committee on Enhancing Employment of People with Disabilities and the Cyberport Advisory Panel of Hong Kong Cyberport Management Company Limited ("Hong Kong Cyberport"), and a non-official member of the Immigration Department Users' Committee and the Commercial Properties Committee of The Hong Kong Housing Authority. She is also an independent non-executive director of Mox Bank Limited and Hongkong International Theme Parks Limited. Ms Yeung was a director of Hong Kong Cyberport and a member of the Hong Kong Tourism Board.

Ms Yeung is a Fellow of The Chartered Institute of Marketing and a Chartered Fellow of The Chartered Institute of Logistics and Transport in Hong Kong.

* *Also a director of the Company's subsidiary(ies).*

CHANGES IN INFORMATION

Changes in information of Directors during 2021 and up to the date of this Report which are required to be disclosed pursuant to the Listing Rules are set out below:

(i) Changes in Biographical Details

Name	Change(s)	Nature and Effective Date of Change(s)
Dr Rex Auyeung Pak-kuen	C-MER Eye Care Holdings Limited • Vice Chairman	 Appointment (2 November 2021)
Dr Jacob Kam Chak-pui	International Association of Public Transport ("UITP") • Honorary Chairman • Chairman of the Regional and Suburban Railways Division	 Appointment (18 June 2021) Cessation (19 June 2021)
	Justice of the Peace (Hong Kong)	Appointment (1 July 2021)
	Vocational Training Council (Hong Kong) • Honorary Fellowship	 Conferment (2 December 2021)
Dr Bunny Chan Chung-bun	Council for Sustainable Development (Hong Kong) • Member	 Cessation (1 March 2021)
	Kowloon Federation of Associations • President	 Cessation (May 2021)
	Grand Bauhinia Medal awarded by the Chief Executive of the Hong Kong Special Administrative Region (the "HKSAR")	Award (1 July 2021)
Dr Pamela Chan Wong Shui	The Boys' and Girls' Clubs Association of Hong Kong • Chairman • Vice-Chairman	 Appointment (24 September 2021) Cessation (24 September 2021)
	The Community Chest of Hong Kong • Third Vice President of the Board	 Appointment (2021)
Dr Dorothy Chan Yuen Tak-fai	The Chartered Institute of Logistics and Transport • Advisor to the Council of Trustees	 Appointment (9 June 2021)
Cheng Yan-kee	Advisory Committee on Post-office Employment for Former Chief Executives and Politically Appointed Officials (Hong Kong) • Member	 Appointment (1 July 2021)
Dr Anthony Chow Wing-kin	Beijing North Star Company Limited • Independent Non-executive Director	 Appointment (13 May 2021)
	The Council of The Hong Kong Academy for Performing Arts • Deputy Chairman	 Cessation (1 January 2022)
	The Hong Kong University of Science and Technology • Doctor of Laws, *honoris causa*	 Conferment (2021)
Dr Rose Lee Wai-mun	The Hang Seng University of Hong Kong • Doctorate of Social Science, *honoris causa*	 Conferment (2021)
Lam Sai-hung (ceased as a Director on 8 October 2021)	Gold Bauhinia Star Medal awarded by the Chief Executive of the HKSAR	Award (1 July 2021)
Rosanna Law Shuk-pui	New Hong Kong Tunnel Company Limited • Director	 Cessation (24 August 2021)
Jimmy Ng Wing-ka	Independent Police Complaints Council (Hong Kong) • Vice-Chairman	 Appointment (1 January 2021)
	Trade and Industry Department (Hong Kong) • Member of the Small and Medium Enterprises Committee	 Cessation (1 January 2021)
	Mandatory Provident Fund Schemes Authority (Hong Kong) • Non-executive Director	 Appointment (17 March 2021)
Benjamin Tang Kwok-bun	Independent Commission Against Corruption (Hong Kong) • Chairman of the Operations Review Committee • Member of the Advisory Committee on Corruption	 Cessation (31 December 2021) Cessation (31 December 2021)
	BE Reinsurance Limited • Independent Non-executive Director	 Cessation (31 December 2021)
	United Builders Insurance Company, Limited • Independent Non-executive Director	 Cessation (31 December 2021)

(i) Changes in Biographical Details *(continued)*

Name	Change(s)	Nature and Effective Date of Change(s)
Adi Lau Tin-shing	UITP	
	• Senior Vice President of the Asia-Pacific Committee	Appointment (19 June 2021)
	• Senior Vice President of the Asia-Pacific Division	Appointment (19 June 2021)
	• Member of the Policy Board	Appointment (19 June 2021)
	• Vice President of the Asia-Pacific Committee	Cessation (19 June 2021)
	• Chairman of the Metropolitan Railways Committee	Appointment (8 September 2021)
Margaret Cheng Wai-ching	The Standing Committee on Directorate Salaries and Conditions of Service (Hong Kong)	
	• Member	Appointment (1 April 2021)
	Employees Retraining Board (Hong Kong)	
	• Member	Appointment (1 April 2021)
	• Honorary Advisor of the ERB Manpower Developer Award Scheme	Cessation (20 April 2021)
	Justice of the Peace (Hong Kong)	Appointment (1 July 2021)
	Hong Kong Council for Accreditation of Academic and Vocational Qualifications	
	• Vice-chairman	Appointment (1 October 2021)
	The Standing Committee on Disciplined Services Salaries and Conditions of Service (Hong Kong)	
	• Member	Cessation (1 January 2022)
	• Chairman of the Police Sub-Committee	Cessation (1 January 2022)
Linda Choy Siu-min	Community Involvement Committee on Greening (Hong Kong)	
	• Non-official Member	Appointment (1 March 2021)
	Make-A-Wish Foundation of Hong Kong Limited	
	• Chairperson	Cessation (4 November 2021)
	• Honorary Advisor	Appointment (4 November 2021)
	Lantau Development Advisory Committee	
	• Non-official member	Appointment (1 February 2022)
Herbert Hui Leung-wah	HKBU Chinese Medicine Hospital Company Limited	
	• Director	Appointment (23 November 2021)
	The Standing Committee on Disciplined Services Salaries and Conditions of Service (Hong Kong)	
	• Member	Appointment (1 January 2022)
Dr Tony Lee Kar-yun	The Hong Kong Institution of Engineers	
	• Member of the Electrical Discipline Advisory Panel	Cessation (1 July 2021)
	The University of Hong Kong	
	• Member of the Advisory Committee of the Department of Electrical and Electronic Engineering	Appointment (13 July 2021)
	City University of Hong Kong	
	• Honorary Advisory Board Member of the Theme-based Research Scheme Project on "Safety, Reliability, and Disruption Management of High Speed Rail and Metro Systems"	Cessation (1 January 2022)
Gillian Elizabeth Meller	The Hong Kong Chartered Governance Institute	
	• President	Cessation (1 January 2022)
	The Chartered Governance Institute	
	• China/Hong Kong Division representative on the Council	Appointment (1 January 2022)
David Tang Chi-fai	Octopus Holdings Limited and two members of the Octopus Holdings Limited group	
	• Director and Alternate Director	Cessation (1 March 2021)
	West Kowloon Cultural District Authority (Hong Kong)	
	• Co-opted Member of the Public Private Partnership Projects Committee under the board	Cessation (1 January 2022)
Jeny Yeung Mei-chun	Octopus Holdings Limited and two members of the Octopus Holdings Limited group	
	• Director	Appointment (1 March 2021)
	The Hong Kong Housing Authority	
	• Non-official Member of the Commercial Properties Committee	Appointment (1 April 2021)
	The Hong Kong Management Association	
	• Member of the Marketing Management Committee	Cessation (8 July 2021)
	Hong Kong Trade Development Council	
	• Member of the Infrastructure Development Advisory Committee	Cessation (14 July 2021)
	Hongkong International Theme Parks Limited	
	• Independent non-executive Director	Appointment (1 September 2021)

(ii) Changes in Directors' Remuneration

1. On 11 January 2022, the Company announced the establishment of a new Finance & Investment Committee and a new Technology Advisory Panel as well as changes to the Company's Board Committees and its membership, all with effect from 1 February 2022. The directors' fees payable to the following directors of the Company have been adjusted with effect from 1 February 2022 and the actual fee receivable by the respective directors for the year ending 31 December 2022 will be calculated on a pro rata basis:

   a. Dr Bunny Chan Chung-bun became a member of the Company's Finance & Investment Committee with effect from 1 February 2022. As a result, the annual fee payable to him by the Company has been adjusted from HK$360,000 to HK$420,000 per annum with effect from 1 February 2022;

   b. Mr Walter Chan Kar-lok became a member of the Company's Capital Works Committee and ceased as a member of the Company's Environmental & Social Responsibility Committee, both with effect from 1 February 2022. As a result, the annual fee payable to him by the Company has been adjusted from HK$420,000 to HK$450,000 per annum with effect from 1 February 2022;

   c. Dr Anthony Chow Wing-kin became a member of the Company's Nominations Committee and ceased as a member of the Company's Capital Works Committee, both with effect from 1 February 2022. As a result, the annual fee payable to him by the Company has been adjusted from HK$450,000 to HK$420,000 per annum with effect from 1 February 2022;

   d. Mr Hui Siu-wai became a member of the Company's Audit & Risk Committee and ceased as a member of the Company's former Risk Committee, both with effect from 1 February 2022. As a result, the annual fee payable to him by the Company has been adjusted from HK$450,000 to HK$480,000 per annum with effect from 1 February 2022;

   e. Mr Jimmy Ng Wing-ka became a member of the Company's Nominations Committee and ceased as a member of the Company's Capital Works Committee, both with effect from 1 February 2022. As a result, the annual fee payable to him by the Company has been adjusted from HK$450,000 to HK$420,000 per annum with effect from 1 February 2022; and

   f. Mr Johannes Zhou Yuan became the chairman of the Company's Technology Advisory Panel and ceased as a member of the Company's former Risk Committee, both with effect from 1 February 2022. As a result, the annual fee payable to him by the Company has been adjusted from HK$450,000 to HK$500,000 per annum with effect from 1 February 2022.

2. In November 2021, the Company renewed a service contract with Dr Jacob Kam Chak-pui for the position of Chief Executive Officer for a term of 3 years commencing on 1 April 2022. The amount of Dr Kam's emoluments is HK$8,486,880 per annum (which excludes discretionary variable remuneration) as determined by the Remuneration Committee of the Company. He was also awarded an entitlement of 132,000 restricted shares which will all vest in Dr Kam on 31 March 2025, according to the terms and conditions set out in his service contract.

For details of the Directors' remuneration received during the year, please refer to pages 227 to 230 of the Annual Report.

KEY CORPORATE MANAGEMENT

Jacob Kam Chak-pui
Chief Executive Officer

Adi Lau Tin-shing
Managing Director – Mainland China Business and Global Operations Standards

Peter Ewen
Engineering Director (up to 21 February 2021)

Capital Works

Roger Bayliss
Capital Works Director

Eva Kong Nai-kui
Capital Works Chief of Staff

Carl Devlin
Deputy Director – Capital Works

Clifford Chow Lung-hung
Deputy Project Manager – NSL Signalling

Robin Wong Koon-sang
General Manager – Capital Works Technical

Scott Mackenzie
General Manager – Commercial Management

Leung Chi-lap
General Manager – E&M Construction

Neil Smith
General Manager – Lantau (Projects)

Barry Sum Pang-tuen
General Manager – New Territories (Projects)

Peter Leung Man-fat
General Manager – Operations Projects

Henry Young
General Manager – Projects Management Office

James Chow So-hung
General Manager – SCL & HSR

Andrew Mead
Head of Architecture

Thomas Lau Ming-yu
Head of Civil Engineering (Capital Works)

Ken Lee Kwong-wah
Head of Design

Wong Sha
Head of E&M Engineering (Capital Works)

Bernard Chui Wan-tak
Head of Programming

Raymond Au Koon-shan
Principal Projects Commercial Manager

Timothy Edmonds
Principal Projects Commercial Manager

Dominic Law Tik-ko
Project Manager – NOL

Kevin Man Kwoon-yin
Project Manager – Operations Projects – Civil

Bruce Chang Chi-tat
Project Manager – Operations Projects – E&M

Chan Chun-sing
Project Manager – Rolling Stock & Signalling

Neil Ng Wai-hang
Project Manager – SCL Civil

Walter Lam Wai-tak
Project Manager – SCL Civil – NSL

Tim Leung Chi-tim
Project Manager – SCL E&M

Adrian Stearn
Project Manager – SHO & ARO (w.e.f. 7 March 2022)

Nelson Yeung Kin-wa
Project Manager – TME

Lesly Leung Po-po
Project Manager – TUE

Corporate Affairs & Branding

Linda Choy Siu-min
Corporate Affairs & Branding Director

Karen Woo Kit-sum
General Manager – Branding & Communications

Osbert Kwan Wing-cheung
General Manager – Corporate Communications

Lam Chan Lam-sang
General Manager – Corporate Relations

Finance

Herbert Hui Leung-wah
Finance Director

Wilson Ma Wai-yuen
ERP Project Management Office Lead (w.e.f. 14 February 2022)

Sammy Jim Kwok-wah
General Manager – Corporate Finance

Dennis Tam Lup-kwan
General Manager – Financial Control

Candy Ng Chui-lok
Head of Investor Relations & Retirement Benefits

David Pang Hoi-hing
Treasurer

Hong Kong Property & International Business

David Tang Chi-fai
Property & International Business Director

Paul Chow Yuen-ming
General Manager-Property & International Business Planning & Governance

Australia

Terry Wong Ping-sau
Deputy Director – Australian Business (up to 31 December 2021)

Raymond Yuen Lap-hang
Deputy Director – Australian Business (Acting) (w.e.f. 1 March 2022)

Raymond O'Flaherty
Chief Executive Officer – Metro Trains Melbourne

Daniel Williams
Chief Executive Officer – Metro Trains Sydney

David Yam Pak-nin
General Manager – Business Development

Tommy Lam Choi-fung
Head of Projects Engineering – Australian Business

Hong Kong Property

Monita Ko Suet-ying
Deputy General Manager – Property Development

Edward Wong Koon-pong
Deputy General Manager – Property Project (up to 17 April 2022)

Lawrence Chung Kwok-leung
Deputy General Manager – Property Project (Designate)

Debbie Chan Yuen-ping
General Manager – Investment Property (Team 1)

Kenneth Lung Tze-ho
General Manager – Investment Property (Team 2)

Melissa Pang Mee-yuk
General Manager – Property Development

Kenny Chow Chun-ling
General Manager – Property Management

Wilfred Yeung Sze-wai
General Manager – Property Project

Sharon Liu Chung-gay
General Manager – Town Planning

Sweden

Joakim Sundh
Chief Executive Officer – MTR Express

Mia Rådberg Andersson
Chief Executive Officer – MTR Facility Management

Henrik Dahlin
Chief Executive Officer – MTR Nordic

Mats Johannesson
Chief Executive Officer – MTR Pendeltågen

Erika Enestad
Chief Executive Officer – MTR Tech (up to 28 February 2022)

Caroline Astrand
Chief Executive Officer – MTR Tunnelbanan

United Kingdom

Steve Murphy
Chief Executive Officer – MTR UK

Nigel Holness
Managing Director – MTR Elizabeth Line

Hong Kong Transport Services

Jeny Yeung Mei-chun
Hong Kong Transport Services Director

Tony Lee Kar-yun
Operations Director

Cheung Chi-keung
Chief of Cross Boundary Segment

Sammy Wong Kwan-wai
Chief of Operating & Metro Segment

Nelson Ng Wai-hung
Chief of Operations Engineering

Gordon Lam Bik-shun
Chief Signal Engineer (Operations)

Joseph Sin Chi-man
Chief Signalling Design Manager

Mark Chan Tat-tai
Deputy General Manager – Projects Planning & Development (Operations)

Margaret Chu Fung-kuen
General Manager – Commercial

Chan Hing-keung
General Manager – Engineering & Innovation Centre

Aiken Tam Yiu-ming
General Manager – Engineering Maintenance (Gateway Segment) (w.e.f. 1 February 2022)

Frankie Ng Sze-ho
General Manager – Engineering Maintenance (Operating & Metro Segment) (w.e.f. 1 February 2022)

Winson Tse Fuk-sum
General Manager – Infrastructure Maintenance (w.e.f. 1 February 2022)

Diane Chiu Man
General Manager – Marketing & Business Growth

Annie Leung Ching-man
General Manager – Marketing & Customer Experience

Siman Tang
General Manager – Operations Performance & Services Management

Alex Lau Hing-hon
General Manager – Operations Safety & Quality (up to 12 March 2022)

Allen Ding Ka-chun
General Manager – Projects Planning & Development (Operations)

Rick Wong Hoi-wah
General Manager – PWay Asset Replacement & Operations Interfacing Works

Lee Kim-hung
General Manager – Rolling Stock Maintenance

Paul Wong Kah-ming
General Manager – Special Duties (w.e.f. 15 January 2022)

Weller Chan Kwok-wai
General Manager – Works Management

Bess Ng Suet-fa
Head of Line Group Management – EAL & IC

Ben Lui Gon-yee
Head of Line Group Management – Urban Lines

Human Resources & Administration

Margaret Cheng Wai-ching
Human Resources Director

Albert Man Tat-shing
General Manager – Corporate Security

Doreen Siu Wai-man
General Manager – Human Resources

Denise Ng Kee Wing-man
General Manager – Learning & Human Resources Transformation

Lillian Ng Lok-yee
General Manager – Performance & Reward

Vinnie Chi Man-yan
General Manager – Talent Management & Organisation Development

Internal Audit

Linda Chan
Head of Internal Audit (w.e.f. 11 January 2022)

Legal & Governance

Gillian Meller
Legal & Governance Director

Stephen Hamill
Chief Engineer

Brian Downie
Deputy Director – Legal, Procurement & Supply Chain

Michael Parker
General Manager – Assurance Management

Roger Lee Chak-man
General Manager – Corporate Safety

Cecilia Cheng Yuet-fong
General Manager – Governance & Company Secretarial

Linda Li Sau-lin
General Manager – Legal (Property)

Nicholas Zhang Xiaolong
General Manager – Procurement & Supply Chain

Katherine Kendall
Head of Corporate Quality & Compliance

Mainland China & Macau Businesses

Macau

Jeff Chan Yue-chiu
General Manager – Macau Light Rapid Transit

Ken Wong Kin-wai
General Manager – Macau (Projects)

Mainland China

Jeremy Xu Muhan
Deputy Director – Mainland China Business

Kyle Lau Ki-ming
Chief of Engineering (Beijing)

Tse Che-ming
Deputy General Manager – Engineering (Hangzhou)

Ronnie Tong Chai-ming
Deputy General Manager – Operations (Beijing)

George Mui Wai-ming
Deputy General Manager – Operations (Hangzhou)

Kevin Kiang Yee-wing
Deputy General Manager – Operations (Shenzhen)

Charles Lau Kam-keung
Deputy General Manager – Projects (Beijing)

Jia Jun
General Manager – Business Development (Mainland China)

Carmen Li Wai-ching
General Manager – Chengdu

Frank Liu Zhui-ming
General Manager – Hangzhou

Wilson Shao Shing-ming
General Manager – Jing-Jin-Ji

Oscar Ho Ka-wa
General Manager – Mainland China Property

Terry Wong Wing-kin
General Manager – Shenzhen

Justin Man Wing-fai
General Manager – Shenzhen L13

MTR Academy

Margaret Cheng Wai-ching
President of MTR Academy (Acting)

Ngong Ping 360

Andy Lau Wai-ming
Managing Director of Ngong Ping 360

Octopus Holdings Limited

Angus Lee Chun-ming#
Chief Executive Officer – Octopus Holdings Limited

Strategy, Innovation & Technology

Ted Suen Yiu-tat
Chief Information Officer (up to 13 February 2022)

Daniel Wong
General Manager – Global Innovation

Cheris Lee Yuen-ling
Transformation Programme Manager

Mr. Angus Lee is seconded to Octopus Holdings Limited and Octopus Cards Limited to take up the role of Chief Executive Officer.

REPORT OF THE MEMBERS OF THE BOARD

The Members of the Board have pleasure in submitting their Report and the audited Consolidated Accounts for the financial year ended 31 December 2021.

PRINCIPAL ACTIVITIES OF THE GROUP

The Group is principally engaged in the following core businesses: railway design, construction, operation, maintenance and investment in Hong Kong, Macau, Mainland China and a number of overseas cities; project management in relation to railway and property development businesses in Hong Kong and Mainland China; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and Mainland China; investment in Octopus Holdings Limited; provision of railway management, engineering and technology training; and investment in relevant new technologies.

The principal businesses of the Company's principal subsidiaries, associates and joint venture as at 31 December 2021 are set out in notes 24 and 25 to the Consolidated Accounts.

BUSINESS REVIEW

The Company has always been committed to providing comprehensive reviews of the Group's businesses and performance in its Annual Reports. A summary of the relevant sections in the Company's Annual Report 2021 covering the required disclosures under the Companies Ordinance is set out below for ease of reference.

Required Disclosures	Relevant Sections
(1) A fair review of the Group's businesses and a discussion and an analysis of the Group's performance during the financial year 2021	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 35) • Business Review (pages 36 to 73) • Financial Review (pages 86 to 97)
(2) Particulars of important events affecting the Group that have occurred since the end of the financial year 2021	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 35) • Business Review (pages 36 to 73)
(3) Description of the significant risks and uncertainties facing the Group	• CEO's Review of Operations and Outlook (pages 18 to 35) • Business Review (pages 36 to 73) • Risk Management (pages 135 to 139) • Financial Risks – note 28B to the Consolidated Accounts (pages 254 to 255)
(4) Outlook for the Group's businesses	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 35) • Business Review (pages 36 to 73)
(5) Details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group	• Corporate Governance Report (pages 102 to 131)
(6) Description of the Group's relationships with its key stakeholders	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 35) • Business Review (pages 36 to 73) • Investor Relations (pages 100 to 101) • Corporate Responsibility (pages 74 to 81) • Human Resources (pages 82 to 84) • Sustainability Report 2021 (www.mtr.com.hk)
(7) Description of the Group's environmental policies and performance	• Chairman's Letter (pages 14 to 17) • CEO's Review of Operations and Outlook (pages 18 to 35) • Corporate Responsibility (pages 74 to 81) • Sustainability Report 2021 (www.mtr.com.hk)

DIVIDENDS

The Board has recommended to pay a final dividend of HK$1.02 per share (2020: HK$0.98 per share) and proposes that a scrip dividend option will be offered to all shareholders of the Company (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). Subject to the approval of the shareholders at the Company's forthcoming annual general meeting ("AGM"), the proposed 2021 final dividend, with a scrip dividend option, is expected to be distributed on 19 July 2022 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 6 June 2022.

ACCOUNTS

The consolidated financial position of the Group as at 31 December 2021 and the Group's consolidated financial performance and consolidated cash flows for the year are set out in the Consolidated Accounts on pages 202 to 286.

TEN-YEAR STATISTICS

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years is set out on pages 98 to 99.

DIRECTORS

Members of the Board (including Alternate Directors) and the Executive Directorate as at the date of this Report are stated below:

Members of the Board

- Dr Rex Auyeung Pak-kuen (Chairman)
- Dr Jacob Kam Chak-pui (CEO)
- Andrew Clifford Winawer Brandler
- Dr Bunny Chan Chung-bun
- Walter Chan Kar-lok
- Dr Pamela Chan Wong Shui
- Dr Dorothy Chan Yuen Tak-fai
- Cheng Yan-kee
- Dr Anthony Chow Wing-kin
- Dr Eddy Fong Ching
- Hui Siu-wai
- Dr Rose Lee Wai-mun
- Jimmy Ng Wing-ka
- Benjamin Tang Kwok-bun
- Adrian Wong Koon-man
- Johannes Zhou Yuan
- Christopher Hui Ching-yu
  (Secretary for Financial Services and the Treasury)
  Alternate Directors:
  - Joseph Chan Ho-lim
  - Cathy Chu Man-ling
  - Maurice Loo Kam-wah
- Secretary for Transport and Housing
  (Frank Chan Fan)
  Alternate Directors:
  - Under Secretary for Transport and Housing
    (Dr Raymond So Wai-man)
  - Permanent Secretary for Transport and Housing (Transport)
    (Mable Chan)
  - Deputy Secretaries for Transport and Housing (Transport)
    (Amy Wong Pui-man and Sharon Yip Lee Hang-yee)
- Permanent Secretary for Development (Works)
  (Ricky Lau Chun-kit [Note])
  Alternate Director:
  - Deputy Secretary for Development (Works)3
    (Francis Chau Siu-hei)
- Commissioner for Transport
  (Rosanna Law Shuk-pui)
  Alternate Director:
  - Deputy Commissioner for Transport/
    Transport Services and Management
    (Macella Lee Sui-chun)

Note: Change of holder of the post from Lam Sai-hung to Ricky Lau Chun-kit with effect from 8 October 2021.

Members of the Executive Directorate

- Dr Jacob Kam Chak-pui (CEO)
- Adi Lau Tin-shing (Managing Director – Mainland China Business and Global Operations Standards)
- Roger Francis Bayliss (Capital Works Director)
- Margaret Cheng Wai-ching (Human Resources Director)
- Linda Choy Siu-min (Corporate Affairs and Branding Director)
- Herbert Hui Leung-wah (Finance Director)
- Dr Tony Lee Kar-yun (Operations Director)
- Gillian Elizabeth Meller (Legal and Governance Director)
- David Tang Chi-fai (Property and International Business Director)
- Jeny Yeung Mei-chun (Hong Kong Transport Services Director)

The biographies of each Member of the Board and the Executive Directorate as at the date of this Report are set out on pages 148 to 160.

In addition, resolutions for electing Mr Sunny Lee Wai-kwong and Mr Carlson Tong as new Directors will be proposed at the 2022 AGM. Please refer to the Company's circular containing the Notice of the 2022 AGM sent together with this Report.

Members of the Board and the Alternate Directors who were directors/alternate directors during the course of 2021 but have since ceased their positions with the Company are stated below:

- James Kwan Yuk-choi (retired on 26 May 2021)
- Lucia Li Li Ka-lai (retired on 26 May 2021)
- Alice Lau Yim (ceased on 26 July 2021)
- Deputy Secretary for Development (Works)2 (Mak Shing-cheung) (ceased on 3 March 2022)

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 196.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for, in respect of Mr Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Mr Frank Chan Fan), Permanent Secretary for Development (Works) (Mr Lam Sai-hung (up to 7 October 2021) and Mr Ricky Lau Chun-kit (since 8 October 2021)), and Commissioner for Transport (Miss Rosanna Law Shuk-pui), all of whom were officials of Government, those connected transactions and continuing connected transactions between the Company and Government (and/or its associates) which are described on pages 173 to 194, there was no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiary undertakings was a party and in which a Member of the Board or a Member of the Executive Directorate or an entity connected with him/her had a material interest (whether direct or indirect), which was entered into during the year or subsisted at any time during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2021, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

	No. of Ordinary Shares held		No. of share options	No. of award shares#		
Members of the Board/ Alternate Directors/ Members of the Executive Directorate	Personal interests*	Family interests†	Personal interests*	Personal interests*	Total interests	Percentage of aggregate interests to total no. of voting shares in issue∆
Dr Jacob Kam Chak-pui	465,038	–	–	579,884	1,044,922 (Note 2)	0.01687
Dr Pamela Chan Wong Shui	9,072	1,675 (Note 1)	–	–	10,747	0.00017
Cheng Yan-kee	–	2,000 (Note 1)	–	–	2,000	0.00003
Dr Rose Lee Wai-mun	3,350	–	–	–	3,350	0.00005

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Members of the Board/ Alternate Directors/ Members of the Executive Directorate	No. of Ordinary Shares held		No. of share options	No. of award shares#		Percentage of aggregate interests to total no. of voting shares in issue∆
	Personal interests*	Family interests†	Personal interests*	Personal interests*	Total interests	
Adrian Wong Koon-man	–	558 (Note 1)	–	–	558	0.00001
Maurice Loo Kam-wah	588	–	–	–	588	0.00001
Mak Shing-cheung	558	8,058 (Note 1)	–	–	8,616	0.00014
Dr Raymond So Wai-man	–	1,675 (Note 1)	–	–	1,675	0.00003
Adi Lau Tin-shing	202,971	–	–	99,035	302,006	0.00488
Roger Francis Bayliss	30,886	–	–	83,067	113,953	0.00184
Margaret Cheng Wai-ching	190,381	–	–	92,452	282,833	0.00457
Linda Choy Siu-min	–	–	–	61,350	61,350	0.00099
Herbert Hui Leung-wah	110,937	2,233 (Note 1)	–	87,417	200,587	0.00324
Dr Tony Lee Kar-yun	110,253	–	–	74,502	184,755	0.00298
Gillian Elizabeth Meller	180,973	–	–	84,568	265,541	0.00429
David Tang Chi-fai	271,628	–	–	91,684	363,312	0.00587
Jeny Yeung Mei-chun	738,813	–	–	92,267	831,080	0.01342

Notes

As at 31 December 2021,

1. *these shares were held by the Director's spouse.*
2. *Dr Kam entered into a service contract with the Company in November 2021 pursuant to which he was, on 1 April 2022, awarded an entitlement of 132,000 restricted shares which will all vest on 31 March 2025, according to the terms and conditions set out in the service contract. This interest has been included in Dr Kam's total interests.*

\# *Details of the award shares are set out in the section headed "Executive Share Incentive Scheme" on pages 169 to 171*

* *Interests as beneficial owner*

† *Interests of spouse or child under 18 as beneficial owner*

∆ *The Company's total number of voting shares in issue as at 31 December 2021 was 6,193,462,514*

Save as disclosed above and in the sections headed "2007 Share Option Scheme" and "Executive Share Incentive Scheme":

A as at 31 December 2021, no Member of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2021, no Member of the Board or the Executive Directorate of the Company nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 31 December 2021 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares held	Percentage of Ordinary Shares to all the voting shares in issue∆
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,634,173,932	74.82%

∆ *The Company's total number of voting shares in issue as at 31 December 2021 was 6,193,462,514*

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2021, approximately 0.19% of the Ordinary Shares in issue (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

OTHER PERSONS' INTERESTS

Pursuant to section 337 of the SFO, the Company has maintained a register recording the shareholding information provided by persons in response to the Company's requests pursuant to section 329 of the SFO.

Save as disclosed above and in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2021, the Company has not been notified of any other persons who had any interests or short positions in the shares or underlying shares of the Company which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

2007 SHARE OPTION SCHEME

Movements in the outstanding share options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme during the year ended 31 December 2021 are set out below:

Member of the Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 3 and 5)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2021	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2021 (Note 5)	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Dr Tony Lee Kar-yun	30/5/2014	71,500	23/5/2015 – 23/5/2021	47,500	–	–	47,500	28.65	–	43.95
Other eligible employees	30/5/2014	19,812,500	23/5/2015 – 23/5/2021	2,300,000	–	–	2,300,000	28.65	–	44.41

Notes

1 *No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.*

2 *Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Share Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Share Option Scheme.*

3 *The share options granted were subject to a vesting schedule in tranches of one-third each per annum starting from the first anniversary of the date of offer of the options (the "Offer Anniversary") and became fully vested on the third Offer Anniversary.*

4 *Pursuant to the terms of the 2007 Share Option Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options.*

5 *All share options granted under the 2007 Share Option Scheme had either been exercised or lapsed as at 31 December 2021.*

6 *Other details of the 2007 Share Option Scheme are set out in notes 11B and 42(i) to the Consolidated Accounts.*

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "2007 Share Option Scheme" above, no equity-linked agreements were entered into during the year ended 31 December 2021 or subsisted at the end of the year.

EXECUTIVE SHARE INCENTIVE SCHEME

The Company adopted the Executive Share Incentive Scheme with effect from 1 January 2015 ("Effective Date") for a term of ten years. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interests with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The maximum number of award shares that may at any time be the subject of an outstanding award granted under the Executive Share Incentive Scheme shall not exceed 2.5% of the number of issued Ordinary Shares as at the Effective Date (i.e. 5,826,534,347 Ordinary Shares) and the maximum number of award shares that may be granted to a single eligible employee in the 12-month period up to the relevant award date shall be 0.03% of the number of issued Ordinary Shares on the relevant award date.

Further details on the operation of the Executive Share Incentive Scheme are set out in the section headed "Long-Term Incentives" under the Remuneration Committee Report (pages 145 to 146) and notes 11C and 42(ii) to the Consolidated Accounts in this Report.

Movements in the award shares under the Executive Share Incentive Scheme during the year ended 31 December 2021 are set out below:

		Types of award shares granted (Note 1)					
Members of the Executive Directorate and eligible employees	Date of award	Restricted shares (Note 2)	Performance shares (Note 3)	Award shares outstanding as at 1 January 2021	Award shares vested during the year	Award shares lapsed and/or forfeited during the year	Award shares outstanding as at 31 December 2021
Dr Jacob Kam Chak-pui (Note 4)	10/4/2018	25,550	50,450	58,968	43,328	15,640	–
	1/4/2019	120,000	–	120,000	–	–	120,000
	8/4/2019	47,400	91,750	123,350	79,107	28,443	15,800
	8/4/2020	89,300	–	89,300	29,766	–	59,534
	8/4/2021	52,750	199,800	–	–	–	252,550
Adi Lau Tin-shing	10/4/2018	16,450	50,450	55,934	40,294	15,640	–
	8/4/2019	16,250	–	10,834	5,416	–	5,418
	8/4/2020	39,100	–	39,100	13,033	–	26,067
	8/4/2021	19,700	47,850	–	–	–	67,550
Roger Francis Bayliss	8/4/2019	–	30,150	30,150	20,803	9,347	–
	8/4/2020	30,250	–	30,250	10,083	–	20,167
	8/4/2021	15,050	47,850	–	–	–	62,900
Margaret Cheng Wai-ching	10/4/2018	17,600	50,450	56,318	40,678	15,640	–
	8/4/2019	16,550	–	11,034	5,516	–	5,518
	8/4/2020	32,450	–	32,450	10,816	–	21,634
	8/4/2021	17,450	47,850	–	–	–	65,300
Linda Choy Siu-min	8/4/2021	13,500	47,850	–	–	–	61,350
Herbert Hui Leung-wah	10/4/2018	14,200	50,450	55,184	39,544	15,640	–
	8/4/2019	13,800	–	9,200	4,600	–	4,600
	8/4/2020	29,050	–	29,050	9,683	–	19,367
	8/4/2021	15,600	47,850	–	–	–	63,450
Dr Tony Lee Kar-yun	10/4/2018	7,900	10,500	13,134	9,879	3,255	–
	8/4/2019	8,300	–	5,534	2,766	–	2,768
	8/4/2020	15,500	–	15,500	5,166	–	10,334
	8/4/2021	13,550	47,850	–	–	–	61,400
Gillian Elizabeth Meller	10/4/2018	16,050	50,450	55,800	40,160	15,640	–
	8/4/2019	13,400	–	8,934	4,466	–	4,468
	8/4/2020	27,000	–	27,000	9,000	–	18,000
	8/4/2021	14,250	47,850	–	–	–	62,100
David Tang Chi-fai	10/4/2018	16,850	50,450	56,068	40,428	15,640	–
	8/4/2019	17,200	–	11,467	5,733	–	5,734
	8/4/2020	31,350	–	31,350	10,450	–	20,900
	8/4/2021	17,200	47,850	–	–	–	65,050

EXECUTIVE SHARE INCENTIVE SCHEME *(continued)*

Members of the Executive Directorate and eligible employees	Date of award	Types of award shares granted (Note 1) Restricted shares (Note 2)	Performance shares (Note 3)	Award shares outstanding as at 1 January 2021	Award shares vested during the year	Award shares lapsed and/or forfeited during the year	Award shares outstanding as at 31 December 2021
Jeny Yeung Mei-chun	10/4/2018	17,350	50,450	56,234	40,594	15,640	–
	8/4/2019	16,350	–	10,900	5,450	–	5,450
	8/4/2020	32,650	–	32,650	10,883	–	21,767
	8/4/2021	17,200	47,850	–	–	–	65,050
Dr Peter Ronald Ewen (Retired on 22 February 2021)	10/4/2018	12,250	50,450	54,534	38,894	15,640	–
	8/4/2019	12,500	–	8,334	8,334	–	–
	8/4/2020	26,500	–	26,500	26,500	–	–
Other eligible employees (Note 5)	10/4/2018	2,064,750	1,358,800	1,575,316	1,115,615	459,701	–
	8/4/2019	1,780,400	122,750	1,126,878	597,467	63,327	466,084
	8/4/2020	1,981,600	6,950	1,866,350	656,160	82,183	1,128,007
	8/4/2021	1,759,700	927,600	–	15,500	107,250	2,564,550

Notes

1 *The award shares granted under the Executive Share Incentive Scheme are issued Ordinary Shares.*

2 *Restricted shares are awarded to selective eligible employees and vest over three years in equal tranches (unless otherwise determined by the Remuneration Committee of the Company).*

3 *Performance shares are awarded to eligible employees generally vest over a three-year performance cycle, subject to review and approval by the Remuneration Committee of the Company from time to time.*

4 *In addition to the particulars detailed, Dr Kam also entered into a service contract with the Company in November 2021 pursuant to which he was, on 1 April 2022, awarded an entitlement of 132,000 restricted shares, which will all vest on 31 March 2025, according to the terms and conditions set out in the service contract.*

5 *Other eligible employees also include former employees of the Company.*

SHARES ISSUED

	No. of Ordinary Shares issued	Consideration/Value (HK$)
As at 31 December 2020	6,180,927,873	N/A
Shares issued under the 2007 Share Option Scheme (Further details can be found in note 42(i) to the Consolidated Accounts)	2,347,500	67 million (received by the Company)
Scrip shares issued in respect of 2020 final dividend	8,510,398	369 million
Scrip shares issued in respect of 2021 interim dividend	1,676,743	74 million
As at 31 December 2021	6,193,462,514	N/A

Details of the movements in share capital of the Company during the year are set out in note 39 to the Consolidated Accounts.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2021. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the HKSE a total of 2,650,000 Ordinary Shares for a total consideration of approximately HK$116 million during the year ended 31 December 2021 (2020: HK$86 million).

PUBLIC FLOAT

The HKSE granted to the Company, at the time of its listing on the Main Board of the HKSE in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total number of issued shares of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Report as required by the Public Float Waiver.

MAJOR SUPPLIERS AND CUSTOMERS

Information in respect of the Group's major suppliers and major customers for the year ended 31 December 2021 is as follows:

	As a percentage of the Group's total supplies
Total value of supplies (not of a capital nature) attributable to the Group's five largest suppliers	22.14%

	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	45.02%
Total revenue attributable to the Group's largest customer	15.10%

As at 31 December 2021, no Members of the Board or the Executive Directorate or any of their respective close associates or any shareholder including the FSI, the substantial shareholder of the Company (which, to the knowledge of the Members of the Board or the Executive Directorate, owned more than 5% of all the Company's voting shares in issue), had any beneficial interests in the Group's five largest customers.

DONATIONS

During the year, the Group donated and sponsored approximately HK$10.7 million (2020: approximately HK$15.4 million) to charitable and other organisations.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2021 amounted to HK$43,752 million (2020: HK$50,340 million). Particulars of the borrowings are set out in note 33 to the Consolidated Accounts.

BONDS AND NOTES ISSUED

The Group issued notes with total face value amounting to HK$5,225 million equivalent during the year ended 31 December 2021 (2020: HK$14,642 million equivalent), details of which are set out in note 33C to the Consolidated Accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including financing of capital expenditure and refinancing of debts.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2021, the Group had a note outstanding of HK$500 million (2020: note outstanding of HK$500 million) with maturity in 2022, which was subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate redemption of the note being demanded.

PROPERTIES

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 53 to 54.

CONNECTED TRANSACTIONS

During the year under review, the transactions described below were entered into with Government (which is a substantial shareholder of the Company as defined in the Listing Rules). Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements of Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

Land Agreements

A On 8 February 2021, the Company accepted an offer dated 29 December 2020 from Government to proceed with the proposed Wong Chuk Hang Station Package Five Property Development at Site E of Aberdeen Inland Lot No. 467 subject to payment of a land premium of HK$6,437,310,000 and on the terms and conditions of the relevant Conditions of Exchange No. 20304.

B On 22 April 2021, the Company accepted an offer dated 15 March 2021 from Government to proceed with the proposed THE SOUTHSIDE Package Six Property Development at Site F of Aberdeen Inland Lot No. 467 subject to payment of a land premium of HK$4,945,860,000 and on the terms and conditions of the relevant Conditions of Exchange No. 20304.

CONTINUING CONNECTED TRANSACTIONS

During the year under review, the following transactions and arrangements described below involved the provision of goods or services carried out on an ongoing or recurring basis and are expected to extend over a period of time with Government and/or KCRC and the Airport Authority (the "AA").

As noted above under the section headed "Connected Transactions", Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of Government and they are also connected persons of the Company as defined in the Listing Rules.

Therefore, each of Government, KCRC and the AA is a "connected person" of the Company for the purposes of the Listing Rules and, during 2021, each transaction set out at sections I, II, III and IV below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with the Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit & Risk Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to C below of this section (together, the "Merger-related Continuing Connected Transactions") and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK$7.79 billion in respect of the Property Package Agreements (as described in paragraph C on pages 174 to 175 and in paragraph F in the section headed "Additional Information in respect of the Rail Merger" below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C Property Package Agreements

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to the concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on pages 191 to 192).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the

Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

II Non Merger-related Continuing Connected Transactions

The following disclosures, in paragraphs A1 to D below of this section together with the Third XRL Agreement (as defined below) (together, the "Non Merger-related Continuing Connected Transactions"), are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;

- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;

- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the "Third SCL Agreement") was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company's project management cost. The amount of the project management cost is HK$7,893 million and will be paid by Government to the Company on a quarterly basis;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK$3,000 million per annum and a total in aggregate of HK$15,000 million;

- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK$4,000 million per annum and a total in aggregate of HK$15,000 million;
- the Company's total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link

The Entrustment Agreement for Design and Site Investigation in relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;

- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company's liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the Construction and Commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of Government (the "Second XRL Agreement").

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK$4,590 million (further details relating to the amendments to this provision are set out in the section headed "The Third Agreement in relation to the Express Rail Link"), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK$2,000 million annually and HK$10,000 million in total) (the "Maximum Payment Limits");
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;

- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision are set out in the section headed "The Third Agreement in relation to the Express Rail Link"); and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government had agreed that the Company would proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company would be invited to undertake the operation of the Express Rail Link under the concession approach.

The Third Agreement in relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link project (the "Third XRL Agreement"). The Third XRL Agreement contains an integrated package of terms and provides that:

(i) Government will bear and finance the project cost up to HK$84.42 billion;

(ii) if the project cost exceeds HK$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;

(iii) the Company will pay a special dividend of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share, in cash in each tranche);

(iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link, including an increase in the project management fee payable to the Company to HK$6.34 billion;

(v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the current cost overrun (if any); and

(vi) the Third XRL Agreement was subject to (a) the obtaining of approval of the Company's independent shareholders (which was obtained on 1 February 2016) and (b) the obtaining of approval of the Legislative Council for Government's additional funding obligations (which was obtained on 11 March 2016).

The first tranche of the special dividend of HK$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK$2.20 per share, was distributed on 12 July 2017.

Pursuant to the Third XRL Agreement, certain amendments have been made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations in relation to the Express Rail Link project).

C1 Maintenance Agreements for the Automated People Mover System at the Hong Kong International Airport

On 5 July 2013, the Company entered into a contract with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport (the "System") for a seven-year period (the "Previous Contract"). With the outbreak of COVID-19 and its disruptions to the aviation industry, the Previous Contract was extended for 6 months to 5 January 2021. The expected highest amount per year receivable from the AA under the Previous Contract was no more than HK$85 million.

The Previous Contract contained provisions relating to the operation and maintenance of the System as undertaken by the Company and in particular, it included the following provisions:

- the duration of the Previous Contract was seven years from 6 July 2013 up to and including 5 July 2020;
- the performance of scheduled maintenance works and overhaul of the System;
- the monitoring of the System against any breakdown and the related repair services where necessary;
- the standards to which the Company must operate the System;
- the Company to carry out, in certain circumstances, upgrade work on the System; and
- the operations of and maintenance for the extension of the System to the Midfield Concourse.

On 2 July 2020, the Company entered into a new contract with the AA for the maintenance of the System for a seven-year period (the "New Contract") effective from 6 January 2021. It is expected that the highest amount per year receivable from the AA will be no more than HK$130 million under the New Contract.

The New Contract contains provisions relating to the operation and maintenance of the System as undertaken by the Company and, in particular, it includes the following provisions:

- the duration of the New Contract shall be seven years from 6 January 2021 up to and including 5 January 2028;
- the performance of scheduled maintenance works and overhaul of the System;
- the monitoring of the System against any breakdown and the related repair services where necessary;
- the standards to which the Company must operate the System;
- the Company to carry out, in certain circumstances, upgrade work on the System; and
- operational training and corresponding qualifications to the AA's personnel.

C2 Subcontractor Warranty to the AA

On 18 May 2018, the Company provided a sub-contractor warranty to the AA as a result of obtaining a subcontract from Niigata Transys Co., Ltd. ("NTS") for the modification works of the existing System for a seven-year period, effective from 25 September 2017 (the "Subcontract"). It is expected that the highest amount per year receivable from NTS will be no more than HK$60 million.

The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System, which includes the following:

- modification of the existing System for its extension to the new Automated People Mover Interchange Station;
- provision of related electrical and mechanical systems, including power distribution system, telecommunication systems and maintenance equipment; and
- relocation of existing maintenance equipment to the new Automated People Mover depot.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for Transport and Housing for and on behalf of Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The final payment certificate was issued on 28 June 2019.

The WIL Project Agreement includes provisions in relation to:

- payment by Government of HK$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public (which period was extended to no later than 30 June 2018 by a supplemental agreement between the Company and Government dated 23 December 2016, further extended for a period ended on or before 31 March 2019 by a second supplemental agreement between the Company and Government dated 29 June 2018, and further extended for a period ended on 30 June 2019 by a third supplemental agreement between the Company and Government dated 29 March 2019), payment by the Company to Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)

The following disclosures, in paragraphs A and B below of this section (together, the "Continuing Connected Transactions relating to the Operation of the High Speed Rail"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

A Amendment Operating Agreement

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "AOA") to amend and supplement the Operating Agreement dated 9 August 2007 (as described in paragraph D of the section headed "Additional Information in respect of the Rail Merger" on pages 192 to 193), as amended (the "Existing Integrated Operating Agreement"), in order to prescribe the operational requirements that will apply to the High Speed Rail. The intent and effect of the AOA is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail.

The AOA is an "operating agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the AOA are as follows:

The terms of the AOA are based substantially on the terms of the Existing Integrated Operating Agreement. The AOA has taken effect on 23 September 2018 (the "Commercial Operation Date (High Speed Rail)") and will expire at the same time as the Supplemental Service Concession Agreement (the "SSCA") entered into between the Company and KCRC on 23 August 2018.

Certain principal terms of the AOA that are specific to the High Speed Rail include:

- obligations on the Company to maintain specific performance requirements in relation to train service delivery, ticket machine reliability, ticket-gate reliability and escalators and passenger lifts reliability;
- obligations on the Company to publish specific customer services pledges in relation to train service delivery, ticket machine reliability, ticket-gate reliability, escalators and passenger lifts reliability, temperature and ventilation levels, railway cleanliness (relating only to the Company's High Speed Rail trains) and passenger enquiry response time;
- obligations in relation to the carrying out of the maintenance of the Company's High Speed Rail trains outside Hong Kong;
- obligations on the Company to carry out design checks and tests to verify that the Mainland operator's High Speed Rail trains are compatible with the Company's infrastructure and can run on the High Speed Rail safely;
- establishing procedures with the Mainland operator for approving the Mainland operator's trains to run on the High Speed Rail safely and for informing Government of the modification of any such trains;
- developing and maintaining a training qualification system for drivers of High Speed Rail trains;
- facilitating the carrying out of inspections by the railway inspector, including liaising with the Mainland operator for this purpose, where necessary;
- security obligations in relation to maintaining the integrity and security of the boundaries of the Mainland Port Area and the Cross-Boundary Restricted Area; and
- mechanisms and Government approval procedures for setting fares for High Speed Rail train journeys, including that:
  - (i) prior to the Commercial Operation Date (High Speed Rail), the Company will seek prior written consent from Government before setting the fares for the various available High Speed Rail ticket types; and
  - (ii) thereafter, fares cannot be adjusted, introduced or withdrawn without the prior consent of Government.

B Supplemental Service Concession Agreement

On 23 August 2018, the Company and KCRC entered into the SSCA to supplement the Service Concession Agreement dated 9 August 2007 (as described in paragraph B of the section headed "Additional Information in respect of the Rail Merger" on pages 191 to 192) (the "Existing Service Concession Agreement") in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. The intent and effect of the SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the High Speed Rail, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the High Speed Rail. The financial provisions in the SSCA have been designed to reflect the provisions of the Existing Integrated Operating Agreement that relate to new concession projects, such as the High Speed Rail subject as set out below.

The SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the High Speed Rail is properly regulated under the MTR Ordinance.

Principal Terms of the SSCA

The terms of the SSCA are based substantially on the terms of the Existing Service Concession Agreement. The operating period with respect to the High Speed Rail has commenced

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on the Commercial Operation Date (High Speed Rail) and will terminate automatically on the earlier of:

(i) a revocation of the Company's franchise under the MTR Ordinance in whole or in respect of the High Speed Rail; and

(ii) the date falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), but may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA, in which case it shall terminate on such other date as is agreed between the Company and KCRC (the "Concession Period (High Speed Rail)").

Certain principal terms of the SSCA that are specific to the High Speed Rail include:

- Additional concession payments for the High Speed Rail

  (i) General

  The additional concession payments to be made by the Company to KCRC and by KCRC to the Company in respect of the High Speed Rail (described below) have been designed to reflect the requirements under the Existing Integrated Operating Agreement, inter alia, for the Company to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail (being discounted at a discount rate which reflects the Company's commercial rate of return in relation to the High Speed Rail).

  The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments, to reflect the current concession payments structure for the existing KCRC system under the Existing Service Concession Agreement.

  The additional concession payments for the High Speed Rail are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the Existing Service Concession Agreement.

  (ii) Variable annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the High Speed Rail fares received or retained by the Company and revenue derived from businesses related to the High Speed Rail which may include, without limitation, advertising, telecommunications, duty free and kiosk rental.

  (iii) Fixed annual payments for the High Speed Rail

  In light of the variable annual payments described in paragraph (ii) above and in order for the Company to be able to retain 10% of the currently expected positive discounted net cash flow from the operation of the High Speed Rail as described above, the fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (High Speed Rail), will be equal to HK$7,965 million.

  These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- Revenue-related arrangements

  In addition, the SSCA contains the following revenue-related arrangements:

  (i) Patronage adjustment

  In respect of actual deviations from the current patronage projections for the High Speed Rail:

  (a) any excess or shortfall in actual patronage of up to 15% in relation to the currently projected patronage for the High Speed Rail will be borne by the Company; and

  (b) any excess or shortfall in actual patronage greater than 15% in relation to the currently projected patronage for the High Speed Rail will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC.

(ii) Incremental revenue adjustment

In respect of actual deviations from the currently projected patronage for the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date (High Speed Rail) up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date (High Speed Rail), respectively) and which will be capped at HK$500 million and HK$1,000 million, respectively.

(iii) Mainland discount programme loss

In respect of revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator, the Company will receive reimbursement payments from KCRC on an annual basis.

KCRC and the Company will also discuss in good faith similar reimbursement arrangements should the Mainland operator introduce any other discount programmes in future.

(iv) Service fees subsidy

In respect of the proportion of the service fee charged in respect of tickets sold at West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland which Government has directed should be borne by the Company, the Company will receive reimbursement payments from KCRC on an annual basis.

- Pre-operating costs reimbursements

In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date (High Speed Rail) that satisfy all of the following criteria:

(i) that directly resulted from the planning and commencement of the operation of the relevant High Speed Rail assets;

(ii) that have not already been paid, and will not be paid or payable, by Government to the Company under any relevant agreement or which the Company and Government otherwise agree in writing should be treated as a pre-operating cost;

(iii) that are not covered in any of the payments to be made by KCRC to the Company under the SSCA; and

(iv) that fall within certain other types of agreed costs and expenses in connection with the operation of the High Speed Rail (including, mobilisation activities in preparation for the opening of the High Speed Rail and trial operations prior to the opening of the High Speed Rail, and other items as may be agreed between KCRC and the Company).

- Equalisation payment

If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten-year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company. The intention of this equalisation payment is to ensure that the Company is partly protected in the event of early termination of the concession in respect of the High Speed Rail.

- High Speed Rail services

The Company is obliged to operate the High Speed Rail during the Concession Period (High Speed Rail) to the standards prescribed in the MTR Ordinance and the Existing Operating Agreement (subject as otherwise stated herein). The Company is not regarded as having failed to meet a requirement under the MTR Ordinance or the Existing Integrated Operating Agreement if the failure has resulted from anything done or omitted to be done by the Mainland operator, any Mainland authority or persons directly under their control.

- Return requirements

If the Concession Period (High Speed Rail) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the High Speed Rail concession property.

IV Continuing Connected Transactions relating to the Operation of the Tuen Ma Line

The following disclosures, in paragraphs A and B below of this section (together, the "Continuing Connected Transactions relating to the Operation of the Tuen Ma Line"), are made in accordance with the conditions of the Waiver, the Merger-related Waiver and Rule 14A.71 of the Listing Rules.

The first phase of the Tuen Ma Line (the "TML1") which extended the Ma On Shan Railway ("MOSR") from Tai Wai to Kai Tak with two stations at Hin Keng and Kai Tak, and an interchange station at Diamond Hill, was commissioned on 14 February 2020. The second phase of the Tuen Ma Line, runs from Kai Tak to Hung Hom with two new stations at Sung Wong Toi and To Kwa Wan and incorporating one existing station at Ho Man Tin, and it integrated the TML1 with West Rail into a single railway line that is known as the Tuen Ma Line (the "TML"). Construction of the second phase of the TML has been completed and commercial operations on the TML as a whole commenced on 27 June 2021. This forms the first part of the Shatin to Central Link.

A Amendment Operating Agreements, Supplemental Operating Agreements and Amendment No.1 to Memorandum on Performance Requirements

On 11 February 2020, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "TML1 AOA") and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the Supplemental Operating Agreement (the "TML1 SOA") to amend and supplement, respectively, the Existing Integrated Operating Agreement in order to prescribe the operational requirements, such as service standards, that will apply to the TML1. The intent and effect of the TML1 AOA and the TML1 SOA together is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the TML1.

The TML1 AOA and the TML1 SOA are each an "operating agreement" for the purposes of the MTR Ordinance, form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the MTR Ordinance so that the TML1 is properly regulated under the MTR Ordinance.

The principal terms of the TML1 AOA and the TML1 SOA have the effect of bringing the TML1 within the legal and regulatory regime for the operation of railways in Hong Kong contained in the Existing Integrated Operating Agreement, as explained above. The amendments under the TML1 AOA and the TML1 SOA took effect on 14 February 2020.

On 21 June 2021, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Amendment Operating Agreement (the "TML AOA") to amend and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the Supplemental Operating Agreement (the "TML SOA") and the Amendment No.1 to Memorandum on Performance Requirements (the "Memorandum Amendment") to supplement the Existing Integrated Operating Agreement in order to prescribe the operational requirements that will apply to the TML as a whole, such as service standards. The intent and effect of the TML AOA, the TML SOA and the Memorandum Amendment together is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the TML as a whole.

The TML AOA, the TML SOA and the Memorandum Amendment are each an "operating agreement" for the purposes of the MTR Ordinance, form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the MTR Ordinance so that the TML as a whole is properly regulated under the MTR Ordinance.

The principal terms of the TML AOA, the TML SOA and the Memorandum Amendment have the effect of bringing the TML as a whole within the legal and regulatory regime for the operation of railways in Hong Kong contained in the Existing Integrated Operating Agreement, as explained above. The amendments under the TML AOA, the TML SOA and the Memorandum Amendment took effect on 21 June 2021.

B Supplemental Service Concession Agreements

On 11 February 2020, the Company and KCRC entered into the Supplemental Service Concession Agreement No. 2 (the "TML1 SSCA") relating to the TML1, to supplement the Existing Service Concession Agreement in order for KCRC to grant a concession to the Company in respect of the TML1 and to prescribe the operational and financial requirements that will apply to the TML1. The intent and effect of the TML1 SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the TML1, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the TML1. The financial provisions in the TML1 SSCA have been designed to reflect the principles contained in the Existing Integrated Operating Agreement that relate to new concession projects, such as the TML1 (as referred to in the sub-section headed "Amendment Operating Agreements, Supplemental Operating Agreements and Amendment No.1 to Memorandum on Performance Requirements" above relating to the TML1) other than as set out below.

The TML1 SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forming part of the legal and regulatory regime for the operation of railways in Hong Kong, and is required for the purposes of the MTR Ordinance so that the TML1 is properly regulated under the MTR Ordinance.

Principal Terms of the TML1 SSCA

The terms of the TML1 SSCA are based substantially on the terms of the Existing Service Concession Agreement, as explained above. The TML1 SSCA was made on 11 February 2020 and the term of the service concession and licence granted by KCRC to the Company pursuant to the terms of the TML1 SSCA and the commercial operation of the TML1 commenced on 14 February 2020 (the "New Project Effective Date (TML1)"), which will terminate automatically on and from the earlier of (being the "Termination Date (TML1)"):

(i) the effective date of the revocation of the franchise pursuant to the MTR Ordinance as it relates to the KCRC railway;

(ii) the effective date of the withdrawal or revocation of the permission by the Director of Lands pursuant to the vesting deed entered into between KCRC and Government as well as the revocation of the franchise pursuant to the MTR Ordinance as it relates to the TML1;

(iii) the first date of commissioning and commercial operation of the entire TML to be designated by Government under a new supplemental service concession agreement for the TML (which shall supersede and replace the TML1 SSCA); and

(iv) the day falling immediately before the second anniversary of the New Project Effective Date (TML1), or such later date as each of the Company, KCRC and Government may agree in a written agreement by no later than the date falling one month prior to the second anniversary of the New Project Effective Date (TML1) or prior to the last extended date (where applicable) (the "Natural Expiry Date (TML1)").

Certain principal terms of the TML1 SSCA that are specific to the TML1 include:

- Concession payments

  (i) Variable annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the TML1 fares received or retained by the Company and revenue derived from businesses related to the TML1 which may include, without limitation, telecommunications and kiosk rental.

  (ii) Fixed annual payments for the TML1

  In light of the variable annual payments described above and in order for the Company to be able to earn a commercial return as described above, the fixed annual payments for the TML1 shall comprise payments from KCRC to the Company which, in aggregate over the period commencing on the New Project Effective Date (TML1) and ending on the day prior to the Termination Date (TML1) (the "Concession Period (TML1)") and assuming that the Concession Period (TML1) terminates on the Natural Expiry Date (TML1), will be equal to HK$465 million. These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

- A new supplemental service concession agreement for the TML

  On and from the date of the TML1 SSCA, to and including the date that is four months before the Natural Expiry Date (TML1) (prior to any extension or otherwise after such extension(s) as agreed in writing by the Company, KCRC and Government for the purposes of this end date), Government, the Company and KCRC shall commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the TML which shall, in accordance with the Existing Integrated Operating Agreement, enable the Company to earn a commercial rate of return from its operation of the TML (and that new supplemental service concession agreement for the TML is intended to replace the TML1 SSCA).

- Return requirements

  If the Concession Period (TML1) expires or is terminated, and no supplemental service concession agreement is entered into for the TML, the Company shall, at no cost to KCRC, redeliver possession of the TML1 concession property.

On 21 June 2021, the Company and KCRC entered into the Supplemental Service Concession Agreement No. 3 (the "TML SSCA") relating to the TML, to supplement the Existing Service Concession Agreement and to supersede and replace the TML1 SSCA in order for KCRC to grant a concession to the Company in respect of the TML as a whole and to prescribe the operational and financial requirements that will apply to the TML as a whole. The intent and effect of the TML SSCA is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the TML as a whole, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the TML as a whole. The financial provisions in the TML SSCA have been designed to reflect the principles contained in the Existing Integrated Operating Agreement that relate to new concession projects, such as the TML (as referred to in the sub-section headed "Amendment Operating Agreements, Supplemental Operating Agreements and Amendment No.1 to Memorandum on Performance Requirements" above relating to the TML) other than as set out below.

The TML SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forming part of the legal and regulatory regime for the operation of railways in Hong Kong, and is required for the purposes of the MTR Ordinance so that the TML as a whole is properly regulated under the MTR Ordinance.

Principal Terms of the TML SSCA

The terms of the TML SSCA are based substantially on the terms of the Existing Service Concession Agreement, as explained above. The TML SSCA was made on 21 June 2021 and the term of the service concession and licence granted by KCRC to the Company pursuant to the terms of the TML SSCA commenced on 25 June 2021 (the "New Project Effective Date (TML)") and the commercial operation of the TML commenced on 27 June 2021 (the "Commercial Operation Date (TML)"), which will terminate automatically on and from the earlier of (being the "Termination Date (TML)"):

(i) the effective date of the revocation of the franchise pursuant to the MTR Ordinance as it relates to the KCRC railway;

(ii) the effective date of the withdrawal or revocation of the permission by the Director of Lands pursuant to the vesting deeds entered into between KCRC and Government as well as the revocation of the franchise pursuant to the MTR Ordinance as it relates to the TML;

(iii) the first date of commissioning and commercial operation of the extension of the existing East Rail from Hung Hom station to the Admiralty station via the Exhibition Centre station to be designated by Government under a new supplemental service concession agreement for the whole of the Shatin to Central Link (which shall supersede and replace the TML SSCA); and

(iv) the day falling immediately before the second anniversary of the Commercial Operation Date (TML), or such later date as each of the Company, KCRC and Government may agree in a written agreement by no later than the date falling one month prior to the second anniversary of the Commercial Operation Date (TML) or prior to the last extended date (where applicable) (the "Natural Expiry Date (TML)").

Certain principal terms of the TML SSCA that are specific to the TML include:

- Concession payments

  The concession payments under the TML SSCA consists of variable annual payments (payable by the Company to KCRC) and fixed annual payments for the TML (payable by KCRC to the Company).

  (i) Variable annual payments and fixed annual payments

  The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system. For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the TML fares received or retained by the Company and revenue derived from businesses related to the TML which may include, without limitation, telecommunications and kiosk rental, subject to certain agreed adjustments.

  In light of the variable annual payments described above and in order for the Company to be able to earn a commercial return as described above, the fixed annual payments for the TML shall comprise payments from KCRC to the Company over the period commencing on the New Project Effective Date (TML) and ending on the day prior to the Termination Date (TML) (the "Concession Period (TML)"). These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK$750 million each financial year to KCRC under the Existing Service Concession Agreement.

  (ii) Estimated net amount of the concession payments

  Based on the Concession Period (TML) terminating on the Natural Expiry Date (TML), the estimated net amount of the concession payments under the TML SSCA (taking into account both the estimated variable annual payments and the fixed annual payments for the TML) receivable by the Company from KCRC is expected, in aggregate, to be approximately HK$49 million (subject to certain agreed adjustments) over the Concession Period (TML).

- A new supplemental service concession agreement for the Shatin to Central Link

  On and from the date of the TML SSCA, to and including the date that is four months before the Natural Expiry Date (TML) (prior to any extension or otherwise after such extension(s) as agreed in writing by the Company, KCRC and Government for the purposes of this end date), Government, the Company and KCRC shall commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the Shatin to Central Link which shall, in accordance with the Existing Integrated Operating Agreement, enable the Company to earn a commercial rate of return from its operation of the Shatin to Central Link (and that new supplemental service concession agreement for the Shatin to Central Link is intended to supersede and replace the TML SSCA, except for any provisions of the TML SSCA that are expressly agreed to remain in effect thereafter pursuant to the terms of such new supplemental service concession agreement).

- Return requirements

  If the Concession Period (TML) expires or is terminated, and no supplemental service concession agreement is entered into for the Shatin to Central Link, the Company shall, at no cost to KCRC, redeliver possession of the TML concession property (which, for the avoidance of doubt, excludes such parts of the TML that were previously known as MOSR or West Rail).

In relation to the Merger-related Continuing Connected Transactions, the Non Merger-related Continuing Connected Transactions, the Continuing Connected Transactions relating to the Operation of the High Speed Rail and the Continuing Connected Transactions relating to the Operation of the Tuen Ma Line (collectively "Transactions") and in accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(i) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(a) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver; and (iv) in the case of the Continuing Connected Transactions relating to the Operation of the Tuen Ma Line, paragraph B(I)(i) of the Merger-related Waiver and paragraph B(I)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed and confirmed that each of the Transactions was entered into:

(1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;

(2) on normal commercial terms or better (within the meaning of the Listing Rules); and

(3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to report on the Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with (i) in the case of the Merger-related Continuing Connected Transactions, paragraph B(I)(ii) of the Merger-related Waiver; (ii) in the case of the Non Merger-related Continuing Connected Transactions, paragraph B(I)(iii)(b) of the Waiver; (iii) in the case of the Continuing Connected Transactions relating to the Operation of the High Speed Rail, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver; and (iv) in the case of the Continuing Connected Transactions relating to the Operation of the Tuen Ma Line, paragraph B(I)(ii) of the Merger-related Waiver and paragraph B(I)(iii)(b) of the Waiver, the auditors have provided letters to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that any of the Transactions has not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that any of the Transactions was not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below of this section describes the payment framework adopted in respect of the Rail Merger and paragraphs B to F below of this section set out summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below of this section), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below of this section) and the consideration for the purchased rail assets; and
- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on page 174) in consideration for the execution of the

Property Package Agreements (as described on pages 174 to 175 and in paragraph F below of this section) and the sale of the shares in the subsidiaries of KCRC (the "KCRC Subsidiaries") that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12-month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below in this section, no specific allocation was made between the various elements of the Rail Merger.

B Service Concession Agreement

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;
- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above in this section);
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

On 23 August 2018, the Company and KCRC entered into the SSCA in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. Further details are set out in the sub-section headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and KCRC entered into the TML1 SSCA in order for KCRC to grant a concession to the Company in respect of the TML1 of the Shatin to Central Link and to prescribe the operational and financial requirements that will apply to the TML1. On 21 June 2021, the Company and KCRC further entered into the TML SSCA in order for KCRC to grant a concession to the Company in respect of the TML and to prescribe the operational and financial requirements that will apply to the TML, which shall supersede the TML1 SSCA. Further details are set out in the sub-section headed "IV Continuing Connected Transactions relating to the Operation of the Tuen Ma Line" in the section headed "Continuing Connected Transactions".

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph F below in this section and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above in this section and in paragraph F below in this section).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway.

The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013 and the second was conducted in 2017. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. On 21 March 2017, the Company announced that it and Government had agreed to maintain the fare adjustment mechanism formula and direct-drive nature of such formula, save for certain consequential changes as a result of the review of the formula having been advanced by one year. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such review, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the AOA to amend and supplement the Operating Agreement dated 9 August 2007, as amended, in order to prescribe the operational requirements that will apply to the High Speed Rail. Further details are set out in the sub-section headed "III Continuing Connected Transactions relating to the Operation of the High Speed Rail (formerly known as the Express Rail Link)" in the section headed "Continuing Connected Transactions".

On 11 February 2020, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the TML1 AOA and the Company and the Commissioner for Transport, for and on behalf of Government, entered into the TML1 SOA to amend and supplement, respectively, the Existing Integrated Operating Agreement, in order to prescribe the operational requirements that will apply to the TML1 of the Shatin to Central Link. On 21 June 2021, the Company and the Secretary for Transport and Housing, for and on behalf of Government, further entered into the TML AOA and the Company and the Commissioner for Transport, for and on behalf of Government, further entered into the TML SOA and the Memorandum Amendment to amend and supplement, respectively, the Existing Integrated Operating Agreement in order to prescribe the operational requirements that will apply to the TML of the Shatin to Central Link. Further details are set out in the sub-section headed "IV Continuing Connected Transactions relating to the Operation of the Tuen Ma Line" in the section headed "Continuing Connected Transactions".

E Memorandum on Performance Requirements

The Memorandum on Performance Requirements was signed by the Company and the Commissioner for Transport for and on behalf of Government on 9 August 2007. It sets out the prescribed formulae for calculating the Performance Requirements.

F Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the "said Assignments").

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

G Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

CAPITAL AND REVENUE EXPENDITURE

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. During the year ended 31 December 2021, all project expenditures over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company required the approval of the Board.

REPORTING AND MONITORING

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Group's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

TREASURY MANAGEMENT

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt portfolio with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

COMPUTER PROCESSING

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2015. Disaster recovery rehearsal on critical applications is conducted annually. For cyber security, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation. The Information Technology Executive Management Committee sets the direction, strategy, and policies related to cyber security for the Company. It steers and oversees the management and performance of all matters relating to cyber security. Various security controls have been implemented and are reviewed regularly to protect the Company from cyber-attacks.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2021 and on 10 March 2022 when this Report was approved. To ensure sufficient coverage is provided, the Company undertakes an annual review of the Directors' and Officers' liability insurance policy of the Company (the "D&O Insurance Policy") in light of recent trends in the insurance market and other relevant factors. The D&O Insurance Policy also indemnifies the other directors within the Group.

GOING CONCERN

The Consolidated Accounts on pages 202 to 286 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2022, together with the longer-term forecast for the following five years and is satisfied that the Group has sufficient resources to continue as a going concern for the foreseeable future.

AUDITORS

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Board of Directors to fix their remuneration.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 10 March 2022

DIRECTORS OF SUBSIDIARY UNDERTAKINGS

The directors of the subsidiary undertakings of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Altamirano Celis, Sandra Elena	√	
Arrowsmith, Stephen		√
Dr Auyeung Pak-kuen, Rex	√	
Bailie, William Paul	√	
Butcher, Stephen Anthony		√
Chan Chi-kun	√(Resigned)	
Chan Hing-keung	√	
Chan Wai-man, Raymond	√	
Dr Chan Yuen Tak-fai, Dorothy	√	
Chen Lei	√	
Cheng Wai-ching, Margaret	√	
Cheng Yan-kee	√	
Chiu Man	√	
Chow Chiu-wai		√
Chow Chun-ling	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Dalin, Bengt Carl Harald Henrik	√	√(Resigned)
Damm, Bo Fredrik	√	
Downie, Brian Francis	√	√
Dr Ewen, Peter Ronald	√(Resigned)	
Dr Fong Ching, Eddy	√	
Fu Oi-yu	√	
Fung Ching-ting, Teresa	√	
Fung Wai-yee	√(Resigned)	
Hellners, Karl Erik Hjalmar	√	
Ho Ka-wa	√	
Holness, Nigel Graham	√	
Hui Leung-wah, Herbert	√	
Jensen, Frederik Mark	√(Resigned)	
Jia Jun	√	
Jim Kwok-wah	√	
Johannesson, Mats Göran	√	
Jones, Niel L.		√
Jubian, Albert	√	
Dr Kam Chak-pui, Jacob	√	
King, Andrew Lewis	√	
Kwok Lai-kay, Lena	√	√
Kwong Chung-hing		√
Lai Ching-kai		√
Lau Kwai-hin, Kenneth	√	
Lau Tin-shing, Adi	√	
Lau Wai-ming	√	
Dr Lee Kar-yun, Tony	√	
Lee Yuen-ling	√	

Name	Director	Alternate Director
Leung Hang-kin	√(Resigned)	
Leung Yiu-fai, David	√	
Li Sau-lin, Linda		√
Li Jerry Zhe	√(Resigned)	
Liu Chung-gay	√(Resigned)	
Lung Tze-ho	√(Resigned)	√
Luo Jiancheng	√(Ceased)	
McCusker, Andrew	√	
McKenzie, Andrew Charles		√(Resigned)
Meller, Gillian Elizabeth	√	
Meyer, Peter	√	
Moros, Tony Antonio	√	
Murphy, Stephen John	√	
Mylvaganam, Deva Rajan	√	
Neukamp, Felix Ernst	√(Resigned)	
Ng Yuen-fan, Hannah		√
Nilsson, Per Håkan Lennart	√	
O'Flaherty, Raymond Anthony	√	
Pagliarini, Stefan Michael		√
Pang Hoi-hing	√	
Poon Kai-chung	√	
Quarrie, Ian Roger		√
Sin Pik-kwan	√(Resigned)	
Söderström, Tim Rafael		√(Resigned)
Soo Tsung Lee, Gene	√	
Suen Yiu-tat	√(Resigned)	
Tam Lup-kwan	√	√
Tang Chi-fai, David	√	
Wei Li-ping	√	
Wendt, Cornelia	√(Resigned)	
Williams Daniel	√	
Wong Daniel	√	
Wong Kin-wai	√	
Wong Kwan-wai, Sammy	√	
Wong O-cheung, Ernest	√	
Wong Ping-sau	√(Resigned)	
Wong Wing-kin	√	
Xia Jing	√	
Xu Muhan	√	
Yam Pak-nin	√	√(Resigned)
Yeung Mei-chun, Jeny	√	
Young Ka-fan, Glen		√
Yuen Lai-ki	√	
Yuen Lap-hang	√	
Zhang Ling	√	

CONTENTS OF CONSOLIDATED ACCOUNTS AND NOTES

KPMG

Independent auditor's report to the members of MTR Corporation Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated accounts of MTR Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 202 to 286, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated accounts, including a summary of significant accounting policies.

In our opinion, the consolidated accounts give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated accounts* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Railway construction in progress under entrustment by the HKSAR Government

Refer to note 22 to the consolidated accounts and the accounting policies in note 2Z

The Key Audit Matter	How the matter was addressed in our audit
The Group and the Government of the Hong Kong Special Administrative Region ("HKSAR Government") have entered into certain entrustment arrangements whereby the Group has been entrusted by the HKSAR Government to proceed with the planning, design, construction, testing and commissioning of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the HSR") and the Shatin to Central Link ("the SCL"). As the HKSAR Government is the owner of both the HSR and the SCL, the financing of the development of these two railway lines is borne by the HKSAR Government, with project management fees payable to the Group. **HSR** Pursuant to an agreement entered into with the HKSAR Government on 30 November 2015, the Group will bear and finance project costs for the HSR (including the Group's project management fees) which exceed HK$84.42 billion and the HKSAR Government reserves the right to refer to arbitration the question of the Group's liability, if any, in respect of the project costs borne and financed by the HKSAR Government which exceed HK$65 billion up to HK$84.42 billion. In the event that the Group is found to be liable under the relevant HSR entrustment agreements, the Group's liability for such costs is currently limited to the amount of the project management fees and certain other additional fees received by the Group under the agreements. In September 2018, construction of the HSR was completed following which commercial operations commenced. However, the total project costs can only be ascertained upon finalisation of all construction contracts which may take several years to reach agreement and settlement. Management has engaged an independent expert to provide an independent assessment of management's estimate of cost to complete the HSR project. As at 31 December 2021, the Group has made a provision for project management costs as it estimated that the total costs to complete its performance obligations under the HSR entrustments are likely to exceed the project management fees from the HKSAR Government. No other provision for project costs has been made.	Our audit procedures in relation to railway construction in progress under entrustment by the HKSAR Government included the following: • inspecting the minutes of the relevant committees of the Group and discussing with management the current status of the HSR and SCL projects, including: (a) For the HSR, the forecast total project costs, assessment of contract claims, estimate of further internal costs to be incurred and the assessment of the financial implications of the project for the Group; (b) For the SCL, the costs incurred to date, remaining critical milestones and estimated costs to complete, and further internal costs to be incurred and the assessment of the financial implications of the project for the Group; • assessing the design and implementation of management's key internal controls over the project cost assessment for the HSR and SCL projects; • evaluating the qualifications, experience, expertise, independence and objectivity of the independent expert engaged by management for the HSR; • discussing with the independent expert the forecast total project costs for the HSR project and the risk of these exceeding HK$84.42 billion, and comparing, on a sample basis, the assessed project costs for the HSR with relevant underlying documentation; • comparing, on a sample basis, costs incurred during the current year in respect of the HSR and SCL with underlying contracts and interim or final payment certificates;

Railway construction in progress under entrustment by the HKSAR Government *(continued)*	
Refer to note 22 to the consolidated accounts and the accounting policies in note 2Z *(continued)*	
The Key Audit Matter	**How the matter was addressed in our audit**
SCL Towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension. A commission of enquiry ("COI") was set up by the HKSAR Government to investigate, inter-alia, certain construction works at the Hung Hom station extension. Subsequently, the Group advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings. The terms of the COI were expanded in February 2019. A redacted final report from the COI was published in May 2020, in which the COI determined that it is satisfied that, with suitable measures completed, the relevant structures will be safe and fit for purpose. The management considered that the suitable measures for the relevant structures have been completed. In July 2019, the HKSAR Government accepted the Group's recommendation that the Tuen Ma Line should open in phases ("Phased Opening"). The Group has announced that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom incidents and certain costs associated with the Phased Opening ("Hung Hom Incidents Related Costs"), which were estimated to be around HK$2 billion in aggregate, and has charged the full amount of such estimate in its consolidated profit and loss account for the year ended 31 December 2019. In February 2020, the Group notified the HKSAR Government of the latest estimate of the cost to complete the SCL Project of HK$82,999 million including the additional project management fee payable to the Group of HK$1,371 million, which increased from the original estimate of HK$70,827 million. In June 2020, the Legislative Council approved additional funding amounting to HK$10,801 million sought by the HKSAR Government, which excludes the Hung Hom Incidents Related Costs and the additional project management fee for the Group, and the HKSAR Government has maintained its position of disagreement to any increase in the project management fee. The Group has announced that it would continue to meet, on an interim and without prejudice basis, the costs of complying with its project management obligations under the entrustment agreements, which were estimated to be around HK$1,371 million ("Project Management Costs"), and has charged the full amount of such estimate in its consolidated profit and loss account for the year ended 31 December 2020. The above matters are ongoing and the timing of their ultimate resolution and any further financial impact to the Group are highly uncertain at this stage. In the event that the Group is found to be liable under the entrustment agreements, the Group's liability is currently limited to a cap equal to the aggregate fees received by the Group under the relevant SCL agreements. However, such cap could not be relied upon if the Group were, in accordance with general principles of law, found to be liable for any loss that had been caused by the fraudulent or other dishonest conduct of its employees or agents. We identified railway construction in progress under entrustment by the HKSAR Government as a key audit matter because the arrangements in respect of these railway projects are highly complex and convey rights and obligations on the Group which could potentially have significant financial implications for the Group.	• assessing the provisions made for the Hung Hom Incidents Related Costs and Project Management Costs, which are funded by the Group, by inspecting, on a sample basis, the relevant underlying documentation and, where applicable, the actual amounts incurred during the year; • holding discussions with management and the Group's external legal advisors to assess the Group's legal obligations and financial exposure in connection with the HSR and SCL projects; and • assessing the disclosures in the consolidated accounts in relation to the HSR and SCL projects with reference to the requirements of the prevailing accounting standards.

Valuation of investment properties ("IP")	
Refer to note 20A to the consolidated accounts and the accounting policies in note 2E(i)	
The Key Audit Matter	**How the matter was addressed in our audit**
The fair value of the Group's IP as at 31 December 2021 was HK$84,801 million, with a revaluation loss for the year ended 31 December 2021 recorded in the consolidated profit and loss account of HK$2,161 million. The Group's IP, which are mainly located in Hong Kong, principally comprise shopping malls and office premises. The fair values of the Group's IP were assessed by external property valuers based on independent valuations. We identified valuation of the Group's IP as a key audit matter because of the significance of IP to the consolidated accounts and because the determination of the fair values involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology, market yields and market rents.	Our audit procedures to assess the valuation of the Group's IP included the following: • obtaining and inspecting the IP valuation reports prepared by the external property valuers; • evaluating the independence, qualifications, expertise and objectivity of the external property valuers; • evaluating the valuation methodologies adopted with reference to prevailing accounting standards and those applied by other external property valuers for similar property types; • holding discussions with management and the external property valuers and challenging the key assumptions and estimates adopted in the valuations, including prevailing market rents and market yields applied by comparing, on a sample basis, the key estimates adopted with comparable available market data; and • comparing the tenancy information, including occupancy status and market rents, provided by the Group to the external property valuers with underlying contracts and documentation, on a sample basis.

Assessing potential impairment of fixed assets other than assets carried at revalued amounts	
Refer to notes 20B and 21 to the consolidated accounts and the accounting policies in note 2I(ii)	
The Key Audit Matter	**How the matter was addressed in our audit**
The carrying value of the Group's fixed assets other than assets carried at revalued amounts as at 31 December 2021 totalled HK$132,487 million and the related depreciation and amortisation charge for the year ended 31 December 2021 amounted to HK$5,663 million. The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets. We identified the potential impairment of fixed assets other than assets carried at revalued amounts as a key audit matter because the assessment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.	Our audit procedures to assess the potential impairment of fixed assets other than assets carried at revalued amounts included the following: • discussing indicators of impairment on fixed assets with management, and where such indicators were identified, evaluating management's impairment assessments and the assumptions adopted therein, including revenue assumptions, with reference to the actual revenue levels achieved in the current year, future operating plans and broader city specific developments; • assessing the discount rates adopted by management in the impairment assessments by comparison with available financial information of other similar companies taking into account regional and industry specific risk premiums; • comparing the assumptions adopted in the prior year's impairment assessments with actual results for the current year, investigating significant variances identified and considering the impact on the current year's impairment assessments; and • performing sensitivity analyses for the discount rates applied and the assumptions for revenue levels adopted and considering the information used to derive the most sensitive assumptions and whether there were any indicators of management bias in their selection.

Information other than the consolidated accounts and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated accounts and our auditor's report thereon.

Our opinion on the consolidated accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated accounts

The directors are responsible for the preparation of the consolidated accounts that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit & Risk Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit & Risk Committee, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit Roy.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 March 2022

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December in HK$ million	Note	**2021**	2020
Revenue from Hong Kong transport operations	4	**13,177**	11,896
Revenue from Hong Kong station commercial businesses	5	**3,208**	3,269
Revenue from Hong Kong property rental and management businesses	6	**5,036**	5,054
Revenue from Mainland China and international railway, property rental and management subsidiaries	7	**25,045**	21,428
Revenue from other businesses	8	**383**	894
		46,849	42,541
Revenue from Mainland China property development	7	**353**	–
Total revenue		**47,202**	42,541
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	10A	**(6,155)**	(6,317)
– Maintenance and related works		**(2,339)**	(2,085)
– Energy and utilities		**(1,801)**	(1,671)
– General and administration expenses		**(838)**	(888)
– Railway support services		**(244)**	(295)
– Stores and spares consumed		**(588)**	(572)
– Government rent and rates		**(156)**	(284)
– Other expenses		**(222)**	(206)
		(12,343)	(12,318)
Expenses relating to Hong Kong station commercial businesses		**(480)**	(509)
Expenses relating to Hong Kong property rental and management businesses		**(970)**	(850)
Expenses relating to Mainland China and international railway, property rental and management subsidiaries	7	**(24,155)**	(20,895)
Expenses relating to other businesses	22B(b)(iii)	**(570)**	(2,496)
Project study and business development expenses		**(312)**	(279)
		(38,830)	(37,347)
Expenses relating to Mainland China property development	7	**(224)**	(13)
Operating expenses before depreciation, amortisation and variable annual payment	10B&C	**(39,054)**	(37,360)
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment			
– Arising from recurrent businesses		**8,019**	5,194
– Arising from Mainland China property development		**129**	(13)
		8,148	5,181
Hong Kong property development profit from share of surplus and interest in unsold properties	12	**11,097**	6,491
Loss from fair value measurement of investment properties	13	**(1,616)**	(9,190)
Operating profit before depreciation, amortisation and variable annual payment		**17,629**	2,482
Depreciation and amortisation	14	**(5,430)**	(5,365)
Variable annual payment		**(260)**	(238)
Share of profit of associates and joint ventures	25	**968**	605
Profit/(loss) before interest, finance charges and taxation		**12,907**	(2,516)
Interest and finance charges	15	**(967)**	(1,004)
Profit/(loss) before taxation		**11,940**	(3,520)
Income tax	16	**(2,261)**	(1,301)
Profit/(loss) for the year		**9,679**	(4,821)
Attributable to:			
– Shareholders of the Company		**9,552**	(4,809)
– Non-controlling interests		**127**	(12)
Profit/(loss) for the year		**9,679**	(4,821)
Profit/(loss) for the year attributable to shareholders of the Company:	9		
– Arising from recurrent businesses		**1,808**	(1,126)
– Arising from property development		**9,343**	5,507
– Arising from underlying businesses		**11,151**	4,381
– Arising from fair value measurement of investment properties		**(1,599)**	(9,190)
		9,552	(4,809)
Earnings/(loss) per share:	18		
– Basic		**HK$1.55**	(HK$0.78)
– Diluted		**HK$1.54**	(HK$0.78)

The notes on pages 207 to 286 form part of the consolidated accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	2021	2020
Profit/(loss) for the year		**9,679**	(4,821)
Other comprehensive income/(loss) for the year (after taxation and reclassification adjustments):	19		
Items that will not be reclassified to profit or loss:			
– Surplus/(loss) on revaluation of self-occupied land and buildings		**119**	(274)
– Remeasurement of net asset/liability of defined benefit schemes		**253**	752
		372	478
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of subsidiaries, associates and joint ventures outside Hong Kong		**279**	1,282
– non-controlling interests		**3**	13
– Cash flow hedges: net movement in hedging reserve		**(143)**	(73)
		139	1,222
		511	1,700
Total comprehensive income/(loss) for the year		**10,190**	(3,121)
Attributable to:			
– Shareholders of the Company		**10,060**	(3,122)
– Non-controlling interests		**130**	1
Total comprehensive income/(loss) for the year		**10,190**	(3,121)

The notes on pages 207 to 286 form part of the consolidated accounts.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in HK$ million	Note	**At 31 December 2021**	At 31 December 2020
Assets			
Fixed assets			
– Investment properties	20A	**84,801**	86,058
– Other property, plant and equipment	20B	**101,517**	101,999
– Service concession assets	21	**34,714**	32,875
		221,032	220,932
Goodwill and property management rights		**69**	79
Property development in progress	23A	**11,215**	11,942
Deferred expenditure		**1,964**	1,116
Interests in associates and joint ventures	25	**12,442**	11,592
Deferred tax assets	38B	**599**	470
Investments in securities	26	**1,479**	468
Properties held for sale	27	**639**	1,800
Derivative financial assets	28	**363**	480
Stores and spares	29	**2,129**	2,014
Debtors and other receivables	30	**14,797**	13,313
Amounts due from related parties	31	**4,384**	5,462
Cash, bank balances and deposits	32	**20,970**	20,906
		292,082	290,574
Liabilities			
Short-term loans	33A	**1,650**	3,357
Creditors, other payables and provisions	34	**40,077**	36,837
Current taxation	38A	**2,381**	1,004
Amounts due to related parties	35	**479**	453
Loans and other obligations	33A	**42,102**	46,983
Obligations under service concession	36	**10,231**	10,295
Derivative financial liabilities	28	**561**	381
Loans from holders of non-controlling interests	37	**146**	158
Deferred tax liabilities	38B	**14,418**	14,125
		112,045	113,593
Net assets		**180,037**	176,981
Capital and reserves	39		
Share capital		**60,184**	59,666
Shares held for Executive Share Incentive Scheme		**(245)**	(262)
Other reserves		**119,775**	117,384
Total equity attributable to shareholders of the Company		**179,714**	176,788
Non-controlling interests		**323**	193
Total equity		**180,037**	176,981

Approved and authorised for issue by the Members of the Board on 10 March 2022

Rex P K Auyeung Chairman	Jacob C P Kam Chief Executive Officer	Herbert L W Hui Finance Director

The notes on pages 207 to 286 form part of the consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Retained profits	Total equity attributable to shareholders of the Company	Non-controlling interests	Total equity
2021											
Balance as at 1 January 2021		**59,666**	**(262)**	**3,662**	**148**	**181**	**150**	**113,243**	**176,788**	**193**	**176,981**
Changes in equity for the year ended 31 December 2021:											
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**9,552**	**9,552**	**127**	**9,679**
– Other comprehensive income/(loss) for the year	19	**–**	**–**	**119**	**(143)**	**–**	**279**	**253**	**508**	**3**	**511**
– Total comprehensive income/(loss) for the year		**–**	**–**	**119**	**(143)**	**–**	**279**	**9,805**	**10,060**	**130**	**10,190**
– Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**(3)**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
– 2020 final ordinary dividend	17	**–**	**–**	**–**	**–**	**–**	**–**	**(6,060)**	**(6,060)**	**–**	**(6,060)**
– Shares issued in respect of scrip dividend of 2020 final ordinary dividend	39A	**369**	**(1)**	**–**	**–**	**–**	**–**	**1**	**369**	**–**	**369**
– 2021 interim ordinary dividend	17	**–**	**–**	**–**	**–**	**–**	**–**	**(1,548)**	**(1,548)**	**–**	**(1,548)**
– Shares issued in respect of scrip dividend of 2021 interim ordinary dividend	39A	**74**	**(1)**	**–**	**–**	**–**	**–**	**1**	**74**	**–**	**74**
– Shares purchased for Executive Share Incentive Scheme	39B	**–**	**(116)**	**–**	**–**	**–**	**–**	**–**	**(116)**	**–**	**(116)**
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	39B	**3**	**135**	**–**	**–**	**(135)**	**–**	**(3)**	**–**	**–**	**–**
– Employee share-based payments		**–**	**–**	**–**	**–**	**83**	**–**	**–**	**83**	**–**	**83**
– Employee share options exercised	39A	**72**	**–**	**–**	**–**	**(5)**	**–**	**–**	**67**	**–**	**67**
Balance as at 31 December 2021		**60,184**	**(245)**	**3,781**	**2**	**124**	**429**	**115,439**	**179,714**	**323**	**180,037**
2020											
Balance as at 1 January 2020		58,804	(263)	3,936	221	160	(1,132)	124,880	186,606	192	186,798
Changes in equity for the year ended 31 December 2020:											
– Loss for the year		–	–	–	–	–	–	(4,809)	(4,809)	(12)	(4,821)
– Other comprehensive (loss)/income for the year	19	–	–	(274)	(73)	–	1,282	752	1,687	13	1,700
– Total comprehensive (loss)/income for the year		–	–	(274)	(73)	–	1,282	(4,057)	(3,122)	1	(3,121)
– 2019 final ordinary dividend	17	–	–	–	–	–	–	(6,036)	(6,036)	–	(6,036)
– Shares issued in respect of scrip dividend of 2019 final ordinary dividend	39A	692	(2)	–	–	–	–	2	692	–	692
– 2020 interim ordinary dividend	17	–	–	–	–	–	–	(1,545)	(1,545)	–	(1,545)
– Shares issued in respect of scrip dividend of 2020 interim ordinary dividend	39A	81	(1)	–	–	–	–	1	81	–	81
– Shares purchased for Executive Share Incentive Scheme	39B	–	(86)	–	–	–	–	–	(86)	–	(86)
– Vesting and forfeiture of award shares of Executive Share Incentive Scheme	39B	6	90	–	–	(94)	–	(2)	–	–	–
– Employee share-based payments		–	–	–	–	121	–	–	121	–	121
– Employee share options exercised	39A	83	–	–	–	(6)	–	–	77	–	77
Balance as at 31 December 2020		59,666	(262)	3,662	148	181	150	113,243	176,788	193	176,981

The notes on pages 207 to 286 form part of the consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December in HK$ million	Note	2021		2020	
Cash flows from operating activities					
Cash generated from operations	40	**8,333**		2,548	
Receipt of government subsidy for Shenzhen Metro Line 4 operation		**–**		587	
Purchase of tax reserve certificates		**(57)**		(57)	
Current tax paid					
– Hong Kong Profits Tax paid		**(342)**		(1,964)	
– Tax paid outside Hong Kong		**(462)**		(342)	
Net cash generated from operating activities			**7,472**		772
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(5,720)**		(5,226)	
– Shenzhen Metro Line 13 project		**(925)**		–	
– Hong Kong railway extension projects		**(716)**		(250)	
– Investment property projects and fitting out work		**(280)**		(3,539)	
– Other capital projects		**(144)**		(234)	
Fixed and variable annual payments		**(988)**		(3,333)	
Receipts in respect of property development		**17,779**		8,583	
Payments in respect of property development		**(1,137)**		(412)	
(Increase)/decrease in bank deposits with more than three months to maturity when placed or pledged		**(1,191)**		3,813	
Investments in associates and joint ventures		**(23)**		(210)	
Purchase of investments in securities		**(1,070)**		(297)	
Dividends received from associates		**361**		144	
Others		**28**		286	
Net cash generated from/(used in) investing activities			**5,974**		(675)
Cash flows from financing activities					
Proceeds from shares issued under share option scheme		**67**		77	
Purchase of shares for Executive Share Incentive Scheme		**(116)**		(86)	
Proceeds from loans and capital market instruments		**16,532**		26,872	
Repayment of loans and capital market instruments		**(22,909)**		(16,495)	
Interest and finance charges paid		**(910)**		(1,039)	
Interest received		**176**		555	
Capital element of lease rentals paid		**(206)**		(232)	
Dividends paid to shareholders of the Company		**(7,165)**		(6,808)	
Net cash (used in)/generated from financing activities			**(14,531)**		2,844
Net (decrease)/increase in cash and cash equivalents			**(1,085)**		2,941
Cash and cash equivalents at 1 January			**11,879**		8,346
Effect of exchange rate changes			**(42)**		592
Cash and cash equivalents at 31 December	32		**10,752**		11,879

The notes on pages 207 to 286 form part of the consolidated accounts.

NOTES TO THE CONSOLIDATED ACCOUNTS

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2021. None of these have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this annual report. The Group has not applied any new standard or amendment to standards that is not yet effective for the current accounting period (note 50).

2 Principal Accounting Policies

A Basis of Preparation of the Consolidated Accounts

(i) The measurement basis used in the preparation of the consolidated accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied buildings (note 2E(ii));
- investments in securities (note 2O); and
- derivative financial instruments (note 2V).

(ii) The preparation of the consolidated accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated accounts and estimates are discussed in note 49.

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2I(ii)).

2 Principal Accounting Policies *(continued)*

D Associates and Joint Ventures

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets and any impairment loss relating to the investment (note 2I(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. The Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (note 2I(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated profit and loss account. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (note 2I(ii)).

E Fixed Assets

(i) Investment Properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the period in which they arise.

(ii) Other Property, Plant and Equipment

Leasehold land registered and located in the Hong Kong Special Administrative Region is stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Self-occupied leasehold buildings where the Group is the registered owner of the property interest are stated at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent professionally qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied leasehold building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the consolidated profit and loss account; and

(b) where a revaluation deficit had previously been charged to the consolidated profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the consolidated profit and loss account to the extent of the deficit previously charged to the consolidated profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

Civil works and plant and equipment, including right-of-use assets arising from freehold or leasehold properties where the Group is not the registered owner of the property interest, and right-of-use assets arising from leases of underlying plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2I(ii)).

Assets under construction include capital works on operating railway and are stated at cost less impairment losses (note 2I(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(iii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the consolidated profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the consolidated profit and loss account by reference to the stage of completion at the end of the reporting period while the fair value of construction service is capitalised initially as service concession assets in the consolidated statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for assets subject to service concession is capitalised and amortised on a straight-line basis at rates sufficient to write off their cost less their estimated residual value, if any, over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried at cost less accumulated amortisation and impairment losses, if any (note 2I(ii)).

(iv) Subsequent Expenditure and Gains or Losses on Retirement or Disposal

Subsequent expenditure relating to the replacement and/or upgrade of certain parts of an existing asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with any gain or loss arising therefrom being dealt with in the consolidated profit and loss account.

Expenditure on repairs or maintenance of an existing asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the consolidated profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the consolidated profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to consolidated profit and loss account.

F Leased Assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a Lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (notes 2J and 2I(ii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2E(i);
– right-of-use assets related to leasehold self-occupied buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2E(ii); and
– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2N.

2 Principal Accounting Policies *(continued)*

F Leased Assets *(continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") and that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(ii) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2AA(ii).

G Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2I(ii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

H Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated at cost less accumulated amortisation and impairment losses (note 2I(ii)). Property management rights are amortised to the consolidated profit and loss account on a straight-line basis over the terms of the management rights.

I Impairment of Assets

(i) Credit Losses from Financial Instruments, Contract Assets and Lease Receivables

For the Group's trade receivables, contract assets and lease receivables, the Group recognises a loss allowance for ECL which is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs". Financial assets measured at fair value are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 Principal Accounting Policies *(continued)*

I Impairment of Assets *(continued)*

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including right-of-use assets and service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the consolidated profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

J Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(iii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

- Land and Buildings

Self-occupied buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

- Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

2 Principal Accounting Policies *(continued)*

J Depreciation and Amortisation *(continued)*

- Plant and Equipment

Rolling stock and components	6 – 42 years
Platform screen doors	10 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 45 years
Power supply systems	5 – 40 years
Aerial ropeway and cabin	10 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	9 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 35 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	10 – 40 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.

K Construction Costs

(i) Costs incurred by the Group in respect of proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage and are not yet considered probable of materialising, the costs concerned are charged to the consolidated profit and loss account; and
- where the proposed projects are at a detailed study stage, having been supported by a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress. In the event the project agreement cannot be reached and the costs concerned are not considered recoverable, the costs concerned are charged to the consolidated profit and loss account immediately.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

L Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the consolidated profit and loss account on the basis of note 2M(iii) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

M Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of Hong Kong property developments are offset against the amounts in property development in progress attributable to that development. Payments received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Profits arising from the development of properties in Hong Kong undertaken in conjunction with property developers are recognised in the consolidated profit and loss account as follows:

- where the Group receives payments from developers in excess of the balance in property development in progress (i.e. resulting in deferred income), profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from the development, the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2N and included within properties held for sale; and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, property development in progress relating to that development is charged to the consolidated profit and loss account, if any.

(iv) Revenue arising from sales of properties in Mainland China is recognised when the legal assignment is completed, which is the point in time when the purchaser has the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under "Creditors and other payables".

(v) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Costs incurred relating to the construction of those assets and the related fitting out costs are initially capitalised in deferred expenditure before the receipt of such properties and subsequently recognised in investment properties upon receipt.

N Properties Held for Sale

Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

For those properties in Hong Kong, cost represents the fair value, as determined by reference to an independent open market valuation, upon the recognition of profits arising from the development as set out in note 2M(iii).

For those properties in Mainland China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

When properties held for sale are sold, the carrying amount of those properties is recognised in the consolidated profit and loss account.

2 Principal Accounting Policies *(continued)*

O Investments in Securities

Investments in securities (other than investments in subsidiaries, associates and joint ventures) are classified as at fair value through profit or loss ("FVPL"). Changes in the fair value of the investments (including interest) are recognised in profit or loss.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investments. Profit or loss on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated profit and loss account as they arise.

P Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

Q Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (note 2AA) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2I(i) and are reclassified to receivables when the right to the consideration has become unconditional (note 2S).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (note 2AA). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (note 2S).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (note 2AB).

R Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

S Debtors and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (note 2Q). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (note 2I(i)).

T Interest-bearing Borrowings

Interest-bearing borrowings are measured initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs using effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for interest and finance charges (note 2AB).

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the consolidated profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

U Creditors and Other Payables

Creditors and other payables are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

V Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are recognised at fair value and are remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

2 Principal Accounting Policies *(continued)*

V Derivative Financial Instruments and Hedging Activities *(continued)*

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated profit and loss account in the periods when the hedged item is recognised in the consolidated profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the consolidated profit and loss account.

(iii) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated profit and loss account as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated profit and loss account.

W Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement schemes, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the consolidated profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. Service cost and net interest expense/income on the net defined benefit liability/asset are recognised either as an expense in the consolidated profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the scheme's obligations.

2 Principal Accounting Policies *(continued)*

W Employee Benefits *(continued)*

When the benefits of a scheme are changed, or when a scheme is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit or loss account or capitalised at the earlier of when the scheme amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement schemes are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

  During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options) which is released directly to retained profits.

- For award shares under the Executive Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

  For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to consolidated profit and loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Executive Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

(iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

X Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the consolidated profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit (provided they are not part of a business combination).

2 Principal Accounting Policies *(continued)*

X Income Tax *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Y Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the consolidated profit and loss account and recognised as deferred income within creditors and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated profit and loss account over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in creditors and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation). To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2I(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

Z Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(ii) Onerous Contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

2 Principal Accounting Policies *(continued)*

AA Revenue Recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

(iv) Income from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AB Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the consolidated profit and loss account.

Finance charges on lease liabilities are charged to the consolidated profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

AC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Statement of financial position items are translated into Hong Kong dollars at the closing exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2 Principal Accounting Policies *(continued)*

AD Segment Reporting

Operating segments, and the amounts of each segment item reported in the consolidated accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

AE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person has control, joint control or significant influence over the Group, or is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate or joint venture of the Group; (iii) the entity is a post-employment benefit scheme for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control or joint control over that entity; (v) a person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of that entity; or (vi) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

AF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance with the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the end of the reporting period. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the end of the reporting period are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line

Rail Merger

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") (the "Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement.

Pursuant to the Service Concession Agreement ("SCA"), KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the franchise period (as it relates to the KCRC railway) is extended. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay to KCRC fixed annual payments and variable annual payments (calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds).

Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value.

Details of the Rail Merger are disclosed in the Company's circular dated 3 September 2007.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line *(continued)*

Operating Arrangements for High Speed Rail

On 23 August 2018, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") in substantially the same manner as the existing railway network. Under the supplemental service concession agreement that was executed on 23 August 2018 ("SSCA-HSR"), the operating period with respect to the HSR is for an initial term of 10 years from 23 September 2018 ("Concession Period (High Speed Rail)"), which may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA-HSR. Under the SSCA-HSR, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the High Speed Rail (with any new assets acquired being classified as "additional concession property (High Speed Rail)"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold (High Speed Rail)"), the Company will be reimbursed for any above-threshold expenditure at the end of the concession period with such reimbursement to be on the basis of depreciated book value.

Details of the SSCA-HSR are disclosed in the Company's announcement dated 23 August 2018.

Operating Arrangements for Tuen Ma Line

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate Tuen Ma Line Phase 1 (which extends the Ma On Shan Line from Tai Wai to Kai Tak) in substantially the same manner as the existing railway network for a period of two years from 14 February 2020 including a supplemental service concession agreement ("SSCA1-SCL") with KCRC.

On 21 June 2021, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the entire Tuen Ma Line in substantially the same manner as the existing railway network for a period of two years from 27 June 2021 including the supplemental service concession agreement ("SSCA2-SCL") signed with KCRC. The SSCA2-SCL replaced the SSCA1-SCL. Prior to the full opening of the SCL, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire SCL (which is intended to replace the SSCA2-SCL, except for any provisions that are expressly agreed to remain in effect thereafter). Under the SSCA2-SCL, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the Tuen Ma Line (with any new assets acquired being classified as "additional concession property (Tuen Ma Line)").

Details of the SSCA1-SCL and SSCA2-SCL are disclosed in the Company's announcements dated 11 February 2020 and 21 June 2021 respectively.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	**2021**	2020
Domestic Service	**11,067**	9,229
Cross-boundary Service	**5**	516
High Speed Rail	**1,363**	1,277
Airport Express	**89**	140
Light Rail and Bus	**583**	481
Intercity Service	**–**	20
Others	**70**	233
	13,177	11,896

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), South Island, and Tuen Ma Lines. Others include mainly by-law infringement surcharge, Octopus load agent fees and other rail-related income.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2021	2020
Duty free shops and kiosks	**1,594**	2,021
Advertising	**894**	516
Telecommunication income	**631**	640
Other station commercial income	**89**	92
	3,208	3,269

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2021	2020
Property rental income	**4,787**	4,817
Property management income	**249**	237
	5,036	5,054

7 Revenue and Expenses Relating to Mainland China and International Subsidiaries

Revenue and expenses relating to Mainland China and international subsidiaries comprise:

	2021		2020	
in HK$ million	Revenue	Expenses*	Revenue	Expenses*
Melbourne Train	**12,324**	**11,992**	10,308	10,280
Sydney Metro North West	**660**	**619**	681	752
Sydney Metro City & Southwest	**1,376**	**1,361**	1,493	1,474
MTR Nordic**	**5,489**	**5,325**	4,747	4,600
TfL Rail/Elizabeth Line	**2,510**	**2,388**	2,363	2,177
Shenzhen Metro Line 4 ("SZL4")	**805**	**744**	692	719
Shenzhen Metro Line 13 ("SZL13")***	**925**	**925**	–	–
Others	**956**	**801**	1,144	893
	25,045	**24,155**	21,428	20,895
Property development in Mainland China	**353**	**224**	–	13
Total Mainland China and international subsidiaries	**25,398**	**24,379**	21,428	20,908

* Expenses include staff costs of HK$10,083 million (2020: HK$9,260 million) (note 10A), maintenance and related work costs of HK$3,081 million (2020: HK$2,850 million) and energy and utilities of HK$640 million (2020: HK$782 million).

** MTR Nordic comprises the Stockholm Metro, MTR Tech, MTRX, Stockholm Commuter Rail ("Stockholms pendeltåg"), and Mälartåg operations in Sweden.

*** Construction revenue and costs are recognised for SZL13 in the consolidated profit and loss account by reference to the stage of completion at the end of reporting period.

8 Revenue from Other Businesses

Revenue from other businesses comprises income from:

in HK$ million	2021	2020
Ngong Ping 360	**103**	65
Consultancy business	**222**	231
Project management for HKSAR Government	**–**	565
Miscellaneous businesses	**58**	33
	383	894

9 Segmental Information

The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland China and international railway, property rental and management businesses and other businesses, and excluding fair value measurement on investment properties in Hong Kong and Mainland China) and (ii) property development businesses (together with recurrent businesses referred to as underlying businesses).

The Group manages its businesses by the various business executive committees. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments:

(i) Hong Kong transport operations: The provision of passenger operation and related services on the domestic mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the Mainland China at Lo Wu and Lok Ma Chau, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) ("High Speed Rail"), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland China.

(ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking spaces at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.

(iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking spaces and the provision of estate management services in Hong Kong.

(iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.

(v) Mainland China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland China.

(vi) Mainland China property development: Property development activities in the Mainland China.

(vii) Other businesses: Businesses not directly relating to transport services or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business, investment in Octopus Holdings Limited and the provision of project management services to the HKSAR Government.

9 Segmental Information *(continued)*

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

in HK$ million	Hong Kong transport services: Hong Kong transport operations	Hong Kong transport services: Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international affiliates: Mainland China and international railway, property rental and management businesses	Mainland China and international affiliates: Mainland China property development	Other businesses	Un-allocated amount	Total
2021									
Revenue from contracts with customers within the scope of HKFRS 15	13,177	1,633	329	–	24,901	353	378	–	40,771
– Recognised at a point in time	12,424	30	–	–	3,876	353	129	–	16,812
– Recognised over time	753	1,603	329	–	21,025	–	249	–	23,959
Revenue from other sources	–	1,575	4,707	–	144	–	5	–	6,431
– Lease payments that are fixed or depend on an index or a rate	–	1,566	4,573	–	143	–	5	–	6,287
– Variable lease payments that do not depend on an index or a rate	–	9	134	–	1	–	–	–	144
Total revenue	13,177	3,208	5,036	–	25,045	353	383	–	47,202
Operating expenses	(12,343)	(480)	(970)	–	(24,155)	(224)	(570)	–	(38,742)
Project study and business development expenses	–	–	–	–	(219)	–	–	(93)	(312)
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	834	2,728	4,066	–	671	129	(187)	(93)	8,148
Hong Kong property development profit from share of surplus and interest in unsold properties	–	–	–	11,097	–	–	–	–	11,097
Loss from fair value measurement of investment properties^	–	–	(1,362)	–	(254)	–	–	–	(1,616)
Operating profit/(loss) before depreciation, amortisation and variable annual payment	834	2,728	2,704	11,097	417	129	(187)	(93)	17,629
Depreciation and amortisation	(4,882)	(195)	(17)	–	(268)	–	(68)	–	(5,430)
Variable annual payment	(214)	(45)	(1)	–	–	–	–	–	(260)
Share of profit of associates and joint ventures	–	–	–	–	736	–	232	–	968
(Loss)/profit before interest, finance charges and taxation	(4,262)	2,488	2,686	11,097	885	129	(23)	(93)	12,907
Interest and finance charges	–	–	–	–	(78)	78	–	(967)	(967)
Income tax	–	–	–	(1,820)	(9)	(141)	–	(291)	(2,261)
(Loss)/profit for the year ended 31 December 2021	(4,262)	2,488	2,686	9,277	798	66	(23)	(1,351)	9,679
Assets									
Fixed assets	124,952	3,209	84,449	–	7,818	58	546	–	221,032
Other segment assets*	6,828	559	796	4,320	9,639	4,841	494	15,166	42,643
Goodwill and property management rights	–	–	12	–	57	–	–	–	69
Property development in progress	–	–	–	11,215	–	–	–	–	11,215
Deferred expenditure	994	–	194	22	–	–	754	–	1,964
Deferred tax assets	–	1	–	–	570	8	20	–	599
Investments in securities	–	–	–	–	7	701	272	499	1,479
Properties held for sale	–	–	–	544	–	95	–	–	639
Interests in associates and joint ventures	–	–	–	–	11,327	–	1,115	–	12,442
Total assets	132,774	3,769	85,451	16,101	29,418	5,703	3,201	15,665	292,082
Liabilities									
Segment liabilities	8,205	1,643	2,645	17,137	10,945	950	2,357	57,932	101,814
Obligations under service concession	10,047	–	–	–	184	–	–	–	10,231
Total liabilities	18,252	1,643	2,645	17,137	11,129	950	2,357	57,932	112,045
Other information									
Capital expenditure on:									
Fixed assets	5,478	478	831	–	1,120	1	29	–	7,937
Property development in progress	–	–	–	600	–	–	–	–	600

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

* Other segment assets mainly include debtors, stores and spares, cash, bank balances and deposits and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

	Hong Kong transport services				Mainland China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international railway, property rental and management businesses	Mainland China property development	Other businesses	Un-allocated amount	Total
2020									
Revenue from contracts with customers within the scope of HKFRS 15	11,896	1,262	315	–	21,289	–	886	–	35,648
– Recognised at a point in time	11,140	29	–	–	1,994	–	67	–	13,230
– Recognised over time	756	1,233	315	–	19,295	–	819	–	22,418
Revenue from other sources	–	2,007	4,739	–	139	–	8	–	6,893
– Lease payments that are fixed or depend on an index or a rate	–	1,971	4,664	–	137	–	7	–	6,779
– Variable lease payments that do not depend on an index or a rate	–	36	75	–	2	–	1	–	114
Total revenue	11,896	3,269	5,054	–	21,428	–	894	–	42,541
Operating expenses	(12,318)	(509)	(850)	–	(20,895)	(13)	(2,496)	–	(37,081)
Project study and business development expenses	–	–	–	–	(183)	–	–	(96)	(279)
Operating (loss)/profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	(422)	2,760	4,204	–	350	(13)	(1,602)	(96)	5,181
Hong Kong property development profit from share of surplus and interest in unsold properties	–	–	–	6,491	–	–	–	–	6,491
Loss from fair value measurement of investment properties^	–	–	(9,090)	–	(100)	–	–	–	(9,190)
Operating (loss)/profit before depreciation, amortisation and variable annual payment	(422)	2,760	(4,886)	6,491	250	(13)	(1,602)	(96)	2,482
Depreciation and amortisation	(4,810)	(197)	(18)	–	(272)	–	(68)	–	(5,365)
Variable annual payment	(176)	(61)	(1)	–	–	–	–	–	(238)
Share of profit of associates and joint ventures	–	–	–	–	424	–	181	–	605
(Loss)/profit before interest, finance charges and taxation	(5,408)	2,502	(4,905)	6,491	402	(13)	(1,489)	(96)	(2,516)
Interest and finance charges	–	–	–	–	(62)	93	–	(1,035)	(1,004)
Income tax	–	–	–	(1,049)	(41)	(15)	–	(196)	(1,301)
(Loss)/profit for the year ended 31 December 2020	(5,408)	2,502	(4,905)	5,442	299	65	(1,489)	(1,327)	(4,821)
Assets									
Fixed assets	124,355	2,928	85,532	–	7,473	58	586	–	220,932
Other segment assets*	6,610	587	911	3,412	9,739	4,447	1,760	14,709	42,175
Goodwill and property management rights	–	–	16	–	63	–	–	–	79
Property development in progress	–	–	–	11,942	–	–	–	–	11,942
Deferred expenditure	326	–	16	3	–	–	771	–	1,116
Deferred tax assets	–	2	–	–	443	–	25	–	470
Investments in securities	–	–	–	–	5	249	214	–	468
Properties held for sale	–	–	–	1,572	–	228	–	–	1,800
Interests in associates and joint ventures	–	–	–	–	10,530	–	1,062	–	11,592
Total assets	131,291	3,517	86,475	16,929	28,253	4,982	4,418	14,709	290,574
Liabilities									
Segment liabilities	8,045	2,090	2,588	12,924	11,024	875	3,417	62,335	103,298
Obligations under service concession	10,114	–	–	–	181	–	–	–	10,295
Total liabilities	18,159	2,090	2,588	12,924	11,205	875	3,417	62,335	113,593
Other information									
Capital expenditure on:									
Fixed assets	5,928	497	3,516	–	249	–	30	–	10,220
Property development in progress	–	–	–	687	–	–	–	–	687

^ Loss attributable to shareholders of the Company arising from fair value measurement of investment properties for the year ended 31 December 2020 represents loss from fair value measurement of investment properties (HK$9,190 million).

* Other segment assets mainly include debtors, stores and spares, cash, bank balances and deposits and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, investment in bank medium-term notes, tax reserve certificates, derivative financial assets and liabilities, interest-bearing loans and borrowings, current taxation as well as deferred tax liabilities.

From the year ended 31 December 2021, the gain from fair value measurement of investment properties on initial recognition from property development (see note 13), previously included in Hong Kong property development, is included in Hong Kong property rental and management businesses in the segment information to conform to the information provided to the Group's most senior executive management. This has no impact on the comparative information presented as the Group recorded no such gain in 2020.

For the year ended 31 December 2021, revenue from two customers (2020: two) of the Mainland China and international railway, property rental and management businesses segment has exceeded 10% of the Group's revenue. Approximately 15.10% and 11.75% of the Group's total revenue was attributable to each of the two customers respectively (2020: approximately 16.49% and 10.60%).

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, goodwill and property management rights, property development in progress, deferred expenditure and interests in associates and joint ventures ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment properties, other property, plant and equipment and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, goodwill and property management rights and interests in associates and joint ventures.

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

As at 31 December 2021, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK$45,131 million (2020: HK$41,913 million). This amount represents revenue expected to be recognised in the future mainly from the fixed annual payments in relation to High Speed Rail under the SSCA-HSR, as well as the construction, consultancy and project management contracts entered into with the Group's customers. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next one to fifteen years.

The Group has applied the practical expedients in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from certain contracts with customers in existence at the reporting date that are billed based on the performance completed to date or have an original expected duration of one year or less.

10 Operating Expenses

A Total staff costs include:

in HK$ million	2021	2020
Amounts charged to consolidated profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**6,155**	6,317
– maintenance and related works for Hong Kong transport operations	**110**	105
– other expense line items for Hong Kong transport operations	**277**	505
– expenses relating to Hong Kong station commercial businesses	**112**	120
– expenses relating to Hong Kong property rental and management businesses	**170**	147
– expenses relating to Mainland China and international subsidiaries	**10,083**	9,260
– expenses relating to other businesses	**852**	884
– project study and business development expenses	**213**	212
– Hong Kong property development profit from share of surplus and interest in unsold properties	**7**	18
Amounts capitalised under:		
– property development in progress	**241**	204
– assets under construction and other projects	**942**	759
– service concession assets	**450**	449
Amounts recoverable	**576**	596
Total staff costs	**20,188**	19,576

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2021	2020
Share-based payments	**83**	121
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**1,052**	921
Amounts recognised in respect of defined benefit retirement schemes	**413**	451
	1,548	1,493

B Auditors' remuneration charged to the consolidated profit and loss account include:

in HK$ million	2021	2020
Audit services	**21**	19
Tax services	**2**	2
Other audit related services	**6**	6
	29	27

C Loss on disposal of fixed assets of HK$53 million (2020: HK$104 million) is included in operating expenses.

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contributions	Variable remuneration related to performance	Total
2021					
Members of the Board					
– Rex Auyeung Pak-kuen	**1.7**	**–**	**–**	**–**	**1.7**
– Andrew Clifford Winawer Brandler	**0.5**	**–**	**–**	**–**	**0.5**
– Bunny Chan Chung-bun	**0.4**	**–**	**–**	**–**	**0.4**
– Walter Chan Kar-lok	**0.4**	**–**	**–**	**–**	**0.4**
– Pamela Chan Wong Shui	**0.5**	**–**	**–**	**–**	**0.5**
– Dorothy Chan Yuen Tak-fai	**0.5**	**–**	**–**	**–**	**0.5**
– Cheng Yan-kee	**0.5**	**–**	**–**	**–**	**0.5**
– Anthony Chow Wing-kin	**0.5**	**–**	**–**	**–**	**0.5**
– Eddy Fong Ching	**0.5**	**–**	**–**	**–**	**0.5**
– Hui Siu-wai (appointed on 26 May 2021)*	**0.3**	**–**	**–**	**–**	**0.3**
– James Kwan Yuk-choi (retired on 26 May 2021)**	**0.2**	**–**	**–**	**–**	**0.2**
– Rose Lee Wai-mun	**0.5**	**–**	**–**	**–**	**0.5**
– Lucia Li Li Ka-lai (retired on 26 May 2021)**	**0.2**	**–**	**–**	**–**	**0.2**
– Jimmy Ng Wing-ka	**0.5**	**–**	**–**	**–**	**0.5**
– Benjamin Tang Kwok-bun	**0.4**	**–**	**–**	**–**	**0.4**
– Adrian Wong Koon-man (appointed on 26 May 2021)*	**0.3**	**–**	**–**	**–**	**0.3**
– Johannes Zhou Yuan	**0.5**	**–**	**–**	**–**	**0.5**
– Christopher Hui Ching-yu	**0.4**	**–**	**–**	**–**	**0.4**
– Secretary for Transport and Housing	**0.4**	**–**	**–**	**–**	**0.4**
– Permanent Secretary for Development (Works)	**0.4**	**–**	**–**	**–**	**0.4**
– Commissioner for Transport	**0.4**	**–**	**–**	**–**	**0.4**
Members of the Executive Directorate					
– Jacob Kam Chak-pui***	**–**	**8.7**	**1.2**	**2.4**	**12.3**
– Adi Lau Tin-shing	**–**	**6.0**	**–**~	**1.4**	**7.4**
– Roger Francis Bayliss	**–**	**5.1**	**–**~~	**1.2**	**6.3**
– Margaret Cheng Wai-ching	**–**	**5.6**	**0.7**	**1.2**	**7.5**
– Linda Choy Siu-min	**–**	**4.2**	**0.6**	**1.0**	**5.8**
– Peter Ronald Ewen (retired on 22 February 2021)****	**–**	**1.6**	**–**~~~	**0.2**~~~	**1.8**
– Herbert Hui Leung-wah	**–**	**5.1**	**0.7**	**1.2**	**7.0**
– Tony Lee Kar-yun	**–**	**4.5**	**0.6**	**1.1**	**6.2**
– Gillian Elizabeth Meller	**–**	**4.7**	**0.7**	**1.1**	**6.5**
– David Tang Chi-fai	**–**	**5.7**	**0.8**	**1.4**	**7.9**
– Jeny Yeung Mei-chun	**–**	**5.3**	**0.8**	**1.4**	**7.5**
	10.0	**56.5**	**6.1**	**13.6**	**86.2**

* S W Hui and Adrian K M Wong were appointed as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table covers the period from the respective dates of their appointment to 31 December 2021.

** James Y C Kwan and Lucia Li Li Ka-lai retired as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from 1 January 2021 to the respective dates of their retirement.

*** Jacob C P Kam, being the Chief Executive Officer of the Company, also serves as a Member of the Board.

**** Peter R Ewen retired as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2021 to the date of his retirement.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2021 for Adi T S Lau, who participated in MTR Retirement Scheme (as described in note 43A(i)) was HK$16,380, pursuant to the requirement of the scheme.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2021 for Roger F Bayliss, who participated in MTR Mandatory Provident Fund Scheme (as described in note 43A(iii)) was HK$18,000.

~~~ The total contributions under MTR Provident Fund Scheme paid by the Company and the pro-rated variable remuneration related to performance for the period from 1 January 2021 to the date of retirement for Peter R Ewen was HK$87,374 and HK$224,970 respectively.
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11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees[δ]	Base pay, allowances and benefits in kind[φ]	Retirement scheme contributions	Variable remuneration related to performance	Total
2020					
Members of the Board					
– Rex Auyeung Pak-kuen	1.6	–	–	–	1.6
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Bunny Chan Chung-bun (appointed on 20 May 2020)[##]	0.2	–	–	–	0.2
– Walter Chan Kar-lok	0.4	–	–	–	0.4
– Pamela Chan Wong Shui	0.5	–	–	–	0.5
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Cheng Yan-kee	0.5	–	–	–	0.5
– Anthony Chow Wing-kin	0.4	–	–	–	0.4
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.4	–	–	–	0.4
– Rose Lee Wai-mun	0.4	–	–	–	0.4
– Lucia Li Li Ka-lai	0.4	–	–	–	0.4
– Jimmy Ng Wing-ka	0.4	–	–	–	0.4
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun (retired on 20 May 2020)[#]	0.2	–	–	–	0.2
– Johannes Zhou Yuan	0.4	–	–	–	0.4
– James Henry Lau Jr (resigned on 1 June 2020)	0.2	–	–	–	0.2
– Christopher Hui Ching-yu (appointed on 1 June 2020)	0.2	–	–	–	0.2
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Jacob Kam Chak-pui[###]	–	8.0	1.2	0.8	10.0
– Adi Lau Tin-shing	–	5.6	–[^]	0.3	5.9
– Roger Francis Bayliss	–	4.6	–[^^]	0.3	4.9
– Margaret Cheng Wai-ching	–	5.2	0.7	0.3	6.2
– Linda Choy Siu-min (appointed on 2 March 2020)[####]	–	3.2	0.5	0.2	3.9
– Peter Ronald Ewen	–	4.3	0.7	0.2	5.2
– Herbert Hui Leung-wah	–	4.8	0.7	0.3	5.8
– Tony Lee Kar-yun (appointed on 1 January 2020)[####]	–	4.2	0.7	0.2	5.1
– Gillian Elizabeth Meller	–	4.3	0.7	0.3	5.3
– Linda So Ka-pik (resigned on 16 January 2020)[#####]	–	0.5	–[^^^]	–[^^^]	0.5
– David Tang Chi-fai	–	4.8	0.7	0.3	5.8
– Jeny Yeung Mei-chun	–	4.7	0.7	0.3	5.7
	9.3	54.2	6.6	3.5	73.6

[#] Allan C Y Wong retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2020 to the date of his retirement.

[##] Bunny C B Chan was appointed as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from the date of his appointment to 31 December 2020.

[###] Jacob C P Kam, being the Chief Executive Officer of the Company, also serves as a Member of the Board.

[####] Linda S M Choy and Tony K Y Lee were appointed as Members of the Executive Directorate on the date shown in the above table. The amounts of their emolument shown in the above table cover the period from the dates of their respective dates of appointment to 31 December 2020.

[#####] Linda K P So resigned as a Member of the Executive Directorate on the date shown in the above table. The amount of her emolument shown in the above table covers the period from 1 January 2020 to the date of her resignation.

[^] The total contributions paid by the Company attributable to the financial year ended 31 December 2020 for Adi T S Lau, who participated in MTR Retirement Scheme was HK$20,475, pursuant to the requirement of the scheme.

[^^] The total contributions paid by the Company attributable to the financial year ended 31 December 2020 for Roger F Bayliss, who participated in MTR Mandatory Provident Fund Scheme was HK$18,000.

[^^^] The total contributions under MTR Provident Fund Scheme paid by the Company and the pro-rated variable remuneration related to performance for the period from 1 January 2020 to the date of resignation for Linda K P So was HK$24,024 and HK$10,174 respectively.

[δ] Dr Rex P K Auyeung agreed to waive HK$125,000 of his director fees for the year ended 31 December 2020. All other Members of the Board except Bunny Chan Chung-bun (appointed on 20 May 2020) and Christopher Hui Ching-yu (appointed on 1 June 2020) agreed to waive HK$25,000 of each of their director fees for the year ended 31 December 2020. The aggregate amount of such remuneration waived was donated by the Company for charity use. The amounts waived are excluded from the above table.

[φ] All Members of the Executive Directorate except Linda K P So (resigned on 16 January 2020) agreed to waive a portion of their remuneration for the year ended 31 December 2020 (HK$566,040 for Jacob C P Kam, HK$378,000 for Adi T S Lau, HK$329,220 for Roger F Bayliss, HK$326,400 for Margaret W C Cheng, HK$270,000 for Linda S M Choy, HK$299,580 for Peter R Ewen, HK$325,560 for Herbert L W Hui, HK$282,000 for Tony K Y Lee, HK$309,120 for Gillian E Meller, HK$345,600 for David C F Tang and HK$337,320 for Jeny M C Yeung). The aggregate amount of such remuneration waived was donated by the Company for charity use. The amounts waived are excluded from the above table.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

The above emoluments do not include the fair value of Award Shares granted under the Executive Share Incentive Scheme.

The director's fees in respect of the office of the Secretary for Transport and Housing (Frank Chan Fan), the office of the Permanent Secretary for Development (Works) (Lam Sai-hung for the period from 1 January 2020 to 7 October 2021 and Ricky Lau Chun-kit for the period from 8 October 2021 to 31 December 2021) and the office of the Commissioner for Transport (Mable Chan for the period from 1 January 2020 to 31 July 2020 and Rosanna Law Shuk-pui for the period from 9 September 2020 to 31 December 2021), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance ("MTR Ordinance"), were received by Government rather than by the individuals personally.

The director's fee in respect of James Henry Lau Jr (for the period from 1 January 2020 to 31 May 2020) and Christopher Hui Ching-yu (for the period from 1 June 2020 to 31 December 2021), being the Secretary for Financial Services and the Treasury of Government for the respective periods, was received by Government rather than by the individuals personally.

Alternate Directors were not entitled to director's fees.

(ii) Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members of the Executive Directorate with vesting periods falling in the years ended 31 December 2020 and 2021, if any, are as follows:

- Jacob C P Kam was granted 22,050 Restricted Shares on 10 April 2017, 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 120,000 Contract-end Restricted Shares on 1 April 2019, 47,400 Restricted Shares and 91,750 Performance Shares on 8 April 2019, 89,300 Restricted Shares on 8 April 2020, and 52,750 Restricted Shares and 199,800 Performance Shares on 8 April 2021, of which a total of 54,084 Restricted Shares and 98,117 Performance Shares were vested in 2021 (2020: 31,666 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$5.6 million (2020: HK$7.6 million). 44,083 award shares were lapsed/forfeited in 2021 (2020: nil);
- Adi T S Lau was granted 17,700 Restricted Shares on 10 April 2017, 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,250 Restricted Shares on 8 April 2019, 39,100 Restricted Shares on 8 April 2020, and 19,700 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 23,933 Restricted Shares and 34,810 Performance Shares were vested in 2021 (2020: 16,799 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$1.2 million (2020: HK$1.9 million). 15,640 award shares were lapsed/forfeited in 2021 (2020: nil);
- Roger F Bayliss was granted 30,150 Performance Shares on 8 April 2019, 30,250 Restricted Shares on 8 April 2020, and 15,050 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 10,083 Restricted Shares and 20,803 Performance Shares were vested in 2021 (2020: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$1.0 million (2020: HK$1.3 million). 9,347 award shares were lapsed/forfeited in 2021 (2020: nil);
- Margaret W C Cheng was granted 16,950 Restricted Shares on 10 April 2017, 17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,550 Restricted Shares on 8 April 2019, 32,450 Restricted Shares on 8 April 2020, and 17,450 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 22,200 Restricted Shares and 34,810 Performance Shares were vested in 2021 (2020: 17,032 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$1.0 million (2020: HK$1.8 million). 15,640 award shares were lapsed/forfeited in 2021 (2020: nil);
- Linda S M Choy was granted 13,500 Restricted Shares and 47,850 Performance Shares on 8 April 2021, and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$0.8 million. No award shares were lapsed/forfeited in 2021;
- Herbert L W Hui was granted 15,200 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,800 Restricted Shares on 8 April 2019, 29,050 Restricted Shares on 8 April 2020, and 15,600 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 19,017 Restricted Shares and 34,810 Performance Shares were vested in 2021 (2020: 14,401 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$0.9 million (2020: HK$1.6 million). 15,640 award shares were lapsed/forfeited in 2021 (2020: nil);
- Tony K Y Lee was granted 6,800 Restricted Shares on 10 April 2017, 7,900 Restricted Shares and 10,500 Performance Shares on 10 April 2018, 8,300 Restricted Shares on 8 April 2019, 15,500 Restricted Shares on 8 April 2020, and 13,550 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 10,566 Restricted Shares and 7,245 Performance Shares were vested in 2021 (2020: 7,667 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$0.8 million (2020: HK$0.6 million). 3,255 award shares were lapsed/forfeited in 2021 (2020: nil);
- Gillian E Meller was granted 16,200 Restricted Shares on 10 April 2017, 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,400 Restricted Shares on 8 April 2019, 27,000 Restricted Shares on 8 April 2020, and 14,250 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 18,816 Restricted Shares and 34,810 Performance Shares were vested in 2021 (2020: 15,216 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$0.9 million (2020: HK$1.6 million). 15,640 award shares were lapsed/forfeited in 2021 (2020: nil);
- David C F Tang was granted 17,250 Restricted Shares on 10 April 2017, 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 17,200 Restricted Shares on 8 April 2019, 31,350 Restricted Shares on 8 April 2020, and 17,200 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 21,801 Restricted Shares and 34,810 Performance Shares were vested in 2021 (2020: 17,099 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$0.9 million (2020: HK$1.8 million). 15,640 award shares were lapsed/forfeited in 2021 (2020: nil);

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- Jeny M C Yeung was granted 17,700 Restricted Shares on 10 April 2017, 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,350 Restricted Shares on 8 April 2019, 32,650 Restricted Shares on 8 April 2020, and 17,200 Restricted Shares and 47,850 Performance Shares on 8 April 2021, of which a total of 22,117 Restricted Shares and 34,810 Performance Shares were vested in 2021 (2020: 17,133 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$1.0 million (2020: HK$1.8 million). 15,640 award shares were lapsed/forfeited in 2021 (2020: nil);
- Peter R Ewen was granted 15,050 Restricted Shares on 10 April 2017, 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 12,500 Restricted Shares on 8 April 2019 and 26,500 Restricted Shares on 8 April 2020, of which a total of 38,918 Restricted Shares and 34,810 Performance Shares were vested in 2021 (2020: 13,267 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2021 was HK$0.2 million (2020: HK$1.6 million). 15,640 award shares were lapsed/forfeited in 2021 (2020: nil); and
- Linda K P So was granted 15,300 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 14,800 Restricted Shares on 8 April 2019, of which none of the shares were vested in 2020, and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was nil. 79,817 award shares were lapsed/forfeited in 2020.

In addition, Jacob C P Kam also entered into a service contract with the Company in November 2021 pursuant to which he was, on 1 April 2022, awarded an entitlement of 132,000 restricted shares, which will all vest on 31 March 2025, according to the terms and conditions set out in the service contract.

The details of the interest in the Company's shares of the Members of the Board and the Members of the Executive Directorate are disclosed in the Report of the Members of the Board and note 42.

(iii) For the year ended 31 December 2021, three (2020: two) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK$ million	2021	2020
Base pay, allowances and benefits in kind	**32.7**	29.6
Retirement scheme contributions	**2.8**	4.3
Variable remuneration related to performance	**9.2**	2.0
	44.7	35.9

The emoluments of the top 5 highest paid individuals for the years are within the following bands:

	2021	2020
HK$6,000,001 – HK$6,500,000	**–**	3
HK$7,000,001 – HK$7,500,000	**1**	1
HK$7,500,001 – HK$8,000,000	**1**	–
HK$8,000,001 – HK$8,500,000	**1**	–
HK$8,500,001 – HK$9,000,000	**1**	–
HK$10,000,001 – HK$10,500,000	**–**	1
HK$12,000,001 – HK$12,500,000	**1**	–
	5	5

(iv) The aggregate emoluments and share-based payments of Members of the Board and the Executive Directorate for the year was HK$100.5 million (2020: HK$95.2 million).

(v) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (excluding three additional directors appointed pursuant to Section 8 of the MTR Ordinance) specifying the terms of his/her continuous appointments as an INED/a NED and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association where applicable. Dr Rex P K Auyeung was appointed by the Financial Secretary Incorporated ("FSI") as non-executive Chairman of the Company for a term commencing from 1 July 2019 until 31 December 2021 (both dates inclusive), and was re-appointed by FSI for a term commencing from 1 January 2022 until 30 June 2024 (both dates inclusive).

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

B Share Options

Options exercised in respect of each Member of the Executive Directorate as at 31 December 2021 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 42(i), all Members of the Executive Directorate may be granted options to acquire shares between 2007 and 2014. No grant was made after the scheme's expiry date on 6 June 2014.

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options. As all the share options granted to each Member of the Executive Directorate were vested prior to 2018, the respective fair value of the share based payments recognised for the year ended 31 December 2021 was HK$nil (2020: HK$nil).

C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2021 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 42(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions, as determined by the Remuneration Committee from time to time.

An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved.

12 Hong Kong Property Development Profit from Share of Surplus and Interest in Unsold Properties

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

in HK$ million	2021	2020
Share of surplus and interest in unsold properties from property development	**11,048**	6,481
Agency fee and other income from West Rail property development (note 23C)	**67**	42
Overheads and miscellaneous studies	**(18)**	(32)
	11,097	6,491

During the year ended 31 December 2021, profit attributable to joint operations of HK$11,593 million (2020: HK$6,481 million), including a gain arising from fair value measurement of investment properties on initial recognition from property development of HK$545 million (2020: HK$nil), was recognised.

13 Loss from Fair Value Measurement of Investment Properties

Loss from fair value measurement of investment properties comprises:

in HK$ million	2021	2020
Loss from fair value remeasurement on investment properties	**(2,161)**	(9,190)
Gain from fair value measurement of investment properties on initial recognition from property development	**545**	–
	(1,616)	(9,190)

14 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2021	2020
Depreciation charge relating to:		
– Owned property, plant and equipment	**3,854**	3,788
– Right-of-use assets	**330**	357
	4,184	4,145
Amortisation charge:		
– Amortisation charge relating to service concession assets and other intangible assets	**1,627**	1,601
– Utilisation of government subsidy for SZL4 operation	**(381)**	(381)
	1,246	1,220
	5,430	5,365

15 Interest and Finance Charges

in HK$ million	2021		2020	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**905**		1,001	
– Obligations under service concession	**692**		696	
– Lease liabilities	**51**		56	
– Others	**25**		25	
Finance charges	**45**		52	
Exchange (gain)/loss	**(144)**		234	
		1,574		2,064
Utilisation of government subsidy for SZL4 operation		**(51)**		(58)
Derivative financial instruments:				
– Fair value hedges	**(5)**		2	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(11)**		(21)	
– transferred from hedging reserve to offset exchange gain/(loss)	**156**		(240)	
– transferred from hedging reserve upon discontinuation of hedge accounting	**(93)**		–	
– Derivatives not qualified for hedge accounting	**(8)**		1	
		39		(258)
Interest expenses capitalised		**(322)**		(360)
		1,240		1,388
Interest income in respect of:				
– Deposits with banks	**(215)**		(348)	
– Others	**(58)**		(36)	
		(273)		(384)
		967		1,004

During the year ended 31 December 2021, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.0% to 2.2% per annum (2020: 2.0% to 2.9% per annum).

During the year ended 31 December 2021, interest and finance charges net of interest expenses capitalised in relation to the SZL4 were HK$51 million (2020: HK$58 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2021, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged under fair value hedge was HK$18 million (2020: HK$140 million) while the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$23 million (2020: HK$138 million), thus resulting in a net gain of HK$5 million (2020: net loss of HK$2 million).

16 Income Tax in the Consolidated Profit and Loss Account

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2021	2020
Current tax		
– Hong Kong Profits Tax	**1,803**	958
– Tax outside Hong Kong	**375**	328
	2,178	1,286
Less: Utilisation of government subsidy for SZL4 operation	**–**	(28)
	2,178	1,258
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**36**	(20)
– depreciation allowances in excess of related depreciation	**302**	356
– revaluation of properties	**(30)**	(1)
– provisions and others	**(225)**	(292)
	83	43
	2,261	1,301

Except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong, the provision for Hong Kong Profits Tax for the year ended 31 December 2021 is calculated at 16.5% (2020: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Under the two-tiered Profits Tax rate regime, the Company's first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated on the same basis in 2021 and 2020.

Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2021, Land Appreciation Tax (before tax effect on deduction of Corporate Income Tax) of HK$98 million (2020: HK$nil) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2020: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company purchased tax reserve certificates in connection with the tax deductibility of certain payments relating to the Rail Merger. Please refer to note 30 to the consolidated accounts for details.

B Reconciliation between tax expense and accounting profit or loss at applicable tax rates:

	2021		2020	
	HK$ million	%	HK$ million	%
Profit/(loss) before taxation	**11,940**		(3,520)	
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,958**	**16.4**	(728)	(20.7)
Land Appreciation Tax (net of tax effect on deduction of Corporate Income Tax)	**73**	**0.6**	–	–
Tax effect of non-deductible expenses	**505**	**4.2**	2,232	63.4
Tax effect of non-taxable revenue	**(274)**	**(2.3)**	(207)	(5.9)
Tax effect of unused tax losses not recognised	**10**	**0.1**	32	0.9
Utilisation of tax losses previously not recognised	**(11)**	**(0.1)**	–	–
Utilisation of government subsidy for SZL4 operation	**–**	**–**	(28)	(0.8)
Actual tax expenses	**2,261**	**18.9**	1,301	36.9

17 Dividends

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

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

The final ordinary dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

For 2021 final ordinary dividend, the Board proposed that a scrip dividend option will be offered to all shareholders of the Company whose names appeared on the register of members of the Company as at the close of business on 6 June 2022 (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions).

Details of ordinary dividends paid to the Financial Secretary Incorporated are disclosed in note 45N.

18 Earnings/(Loss) Per Share

A Basic Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the profit for the year attributable to shareholders of HK$9,552 million (2020: loss of HK$4,809 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2021	2020
Issued ordinary shares at 1 January	**6,180,927,873**	6,157,948,911
Effect of scrip dividend issued	**4,187,108**	8,968,601
Effect of share options exercised	**1,731,074**	1,399,931
Less: Shares held for Executive Share Incentive Scheme	**(5,419,380)**	(5,787,780)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme during the year	**6,181,426,675**	6,162,529,663

B Diluted Earnings/(Loss) Per Share

The calculation of diluted earnings/(loss) per share is based on the profit for the year attributable to shareholders of HK$9,552 million (2020: loss of HK$4,809 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	2021	2020
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme during the year	**6,181,426,675**	6,162,529,663
Effect of dilutive potential shares under the share option scheme	**213,308**	–
Effect of shares awarded under Executive Share Incentive Scheme	**5,390,572**	–
Weighted average number of shares (diluted) during the year	**6,187,030,555**	6,162,529,663

The effect of the Company's share option scheme (1,055,658 shares) and Executive Share Incentive Scheme (5,836,013 shares) are anti-dilutive for the year ended 31 December 2020 since they would result in a decrease in the loss per share.

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

19 Other Comprehensive Income/(Loss)

A Tax effects relating to each component of other comprehensive income/(loss) of the Group are shown below:

	2021			2020		
in HK$ million	Before-tax amount	Tax (expense)/ credit	Net-of-tax amount	Before-tax amount	Tax credit/ (expense)	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of subsidiaries, associates and joint ventures outside Hong Kong	**279**	**–**	**279**	1,282	–	1,282
– Non-controlling interests	**3**	**–**	**3**	13	–	13
	282	**–**	**282**	1,295	–	1,295
Surplus/(loss) on revaluation of self-occupied land and buildings	**142**	**(23)**	**119**	(328)	54	(274)
Remeasurement of net asset/liability of defined benefit schemes	**296**	**(43)**	**253**	893	(141)	752
Cash flow hedges: net movement in hedging reserve (note 19B)	**(171)**	**28**	**(143)**	(87)	14	(73)
Other comprehensive income/(loss)	**549**	**(38)**	**511**	1,773	(73)	1,700

B The components of other comprehensive income/(loss) of the Group relating to cash flow hedges are as follows:

in HK$ million	2021	2020
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(227)**	174
Amounts charged/(credited) to profit or loss:		
– Interest and finance charges (note 15)	**52**	(261)
– Other expenses	**4**	–
	(171)	(87)
Tax effect resulting from:		
– Effective portion of changes in fair value of hedging instruments recognised during the year	**37**	(29)
– Amounts (credited)/charged to profit or loss	**(9)**	43
	(143)	(73)

20 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Movements and analysis of the Group's investment properties, all of which being held in Hong Kong and Mainland China and carried at fair value, are as follows:

in HK$ million	2021	2020
At 1 January	**86,058**	91,712
Additions	**341**	3,501
Fair value measurement of investment properties on initial recognition from property development (note 13)	**545**	–
Fair value remeasurement on investment properties (note 13)	**(2,161)**	(9,190)
Exchange gain	**18**	35
At 31 December	**84,801**	86,058

All investment properties of the Group were revalued at 31 December 2021 and 2020. Details of the fair value measurement are disclosed in note 41. Investment properties in Hong Kong and Mainland China are revalued semi-annually by Colliers International (Hong Kong) Limited and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through consolidated profit and loss account in subsequent periods.

Included in the Group's investment properties as at 31 December 2021 was HK$431 million (2020: HK$605 million) relating to properties in Mainland China.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

B Other Property, Plant and Equipment

in HK$ million	Leasehold land	Self-occupied buildings	Civil works	Plant and equipment	Assets under construction	Total
2021						
Cost or Valuation						
At 1 January 2021	**1,765**	**4,222**	**62,453**	**89,973**	**8,355**	**166,768**
Additions	**–**	**–**	**–**	**260**	**3,693**	**3,953**
Disposals/write-offs	**–**	**(3)**	**(1)**	**(529)**	**(38)**	**(571)**
Loss on revaluation	**–**	**(3)**	**–**	**–**	**–**	**(3)**
Capitalisation adjustments*	**–**	**–**	**(192)**	**(16)**	**–**	**(208)**
Transfer to additional concession property (note 21)	**–**	**–**	**–**	**(9)**	**(11)**	**(20)**
Other assets commissioned	**–**	**–**	**15**	**1,947**	**(1,962)**	**–**
Exchange differences	**–**	**(15)**	**–**	**(133)**	**(1)**	**(149)**
At 31 December 2021	**1,765**	**4,201**	**62,275**	**91,493**	**10,036**	**169,770**
At Cost	**1,765**	**457**	**62,275**	**91,493**	**10,036**	**166,026**
At 31 December 2021 Valuation	**–**	**3,744**	**–**	**–**	**–**	**3,744**
Aggregate depreciation						
At 1 January 2021	**408**	**158**	**9,909**	**54,294**	**–**	**64,769**
Charge for the year	**34**	**232**	**520**	**3,398**	**–**	**4,184**
Written back on disposals	**–**	**(2)**	**–**	**(469)**	**–**	**(471)**
Written back on revaluation	**–**	**(145)**	**–**	**–**	**–**	**(145)**
Exchange differences	**–**	**(9)**	**–**	**(75)**	**–**	**(84)**
At 31 December 2021	**442**	**234**	**10,429**	**57,148**	**–**	**68,253**
Net book value at 31 December 2021	**1,323**	**3,967**	**51,846**	**34,345**	**10,036**	**101,517**
2020						
Cost or Valuation						
At 1 January 2020	1,765	4,650	62,378	88,175	6,835	163,803
Additions	–	30	3	348	3,401	3,782
Disposals/write-offs	–	(1)	–	(544)	(3)	(548)
Loss on revaluation	–	(480)	–	–	–	(480)
Transfer to additional concession property (note 21)	–	–	(4)	1	(8)	(11)
Other assets commissioned	–	–	76	1,798	(1,874)	–
Exchange differences	–	23	–	195	4	222
At 31 December 2020	1,765	4,222	62,453	89,973	8,355	166,768
At Cost	1,765	475	62,453	89,973	8,355	163,021
At 31 December 2020 Valuation	–	3,747	–	–	–	3,747
Aggregate depreciation						
At 1 January 2020	374	74	9,388	51,335	–	61,171
Charge for the year	34	233	521	3,357	–	4,145
Written back on disposals	–	(1)	–	(491)	–	(492)
Written back on revaluation	–	(152)	–	–	–	(152)
Exchange differences	–	4	–	93	–	97
At 31 December 2020	408	158	9,909	54,294	–	64,769
Net book value at 31 December 2020	1,357	4,064	52,544	35,679	8,355	101,999

* Capitalisation adjustments relate to adjustments on the cost of assets to their final contract values after finalisation of contracts.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

in HK$ million	Note	31 December 2021	31 December 2020
Ownership interests in leasehold land held for own use, with remaining lease term of:	(i)		
– less than 50 years		**1,323**	1,357
Ownership interests in self-occupied buildings held for own use, with remaining lease term of:	(i)		
– less than 50 years		**3,744**	3,747
Other self-occupied buildings leased for own use, with remaining lease term of:	(ii)		
– less than 10 years		**223**	317
Plant and equipment leased, with remaining lease term of:	(iii)		
– less than 10 years		**451**	507
		5,741	5,928
Ownership interests in leasehold investment properties, with remaining lease term of:			
– 50 years or more		**14**	14
– less than 50 years		**84,638**	85,801
		84,652	85,815
Other leasehold investment property, with remaining lease term of:			
– less than 10 years		**149**	243
		84,801	86,058
		90,542	91,986

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

in HK$ million	2021	2020
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land held for own use	**34**	34
Ownership interests in self-occupied buildings held for own use	**145**	152
Other self-occupied buildings leased for own use	**87**	81
Plant and equipment	**64**	90
	330	357
Interest on lease liabilities	**51**	56
Expense relating to short-term leases	**9**	14
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**32**	22

During the year, additions to right-of-use assets were HK$920 million (2020: HK$3,566 million). This amount primarily related to additions of investment properties and fair value measurement of investment properties on initial recognition from property development (note 13).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 40C and 33D, respectively.

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets *(continued)*

(i) Ownership Interests in Leasehold Land and Buildings Held for Own Use

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 45A, 45B and 45C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

All self-occupied buildings of the Group in Hong Kong are carried at fair value. The details of the fair value measurement are disclosed in note 41. The revaluation surplus of HK$142 million (2020: revaluation loss of HK$328 million) and the related deferred tax expenses of HK$23 million (2020: deferred tax credit of HK$54 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 39D). The carrying amount of the self-occupied buildings at 31 December 2021 would have been HK$639 million (2020: HK$665 million) had the buildings been stated at cost less accumulated depreciation.

(ii) Other Self-occupied Buildings Leased for Own Use

The Group has obtained the right to use other properties as its offices through tenancy agreements. The leases typically run for an initial period of 4 to 7 years.

(iii) Other Leases

The Group leases plant and equipment under leases expiring from 2 to 20 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

D Properties Leased Out under Operating Leases

The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amount of investment properties of the Group held for use in operating leases were HK$84,801 million (2020: HK$86,058 million). The costs of station kiosks of the Group held for use in operating leases were HK$863 million (2020: HK$818 million) and the related accumulated depreciation charges were HK$541 million (2020: HK$519 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

in HK$ million	**2021**	2020
Within 1 year	**7,734**	8,436
After 1 year but within 2 years	**4,549**	6,038
After 2 years but within 3 years	**2,942**	2,666
After 3 years but within 4 years	**2,183**	1,440
After 4 years but within 5 years	**1,074**	1,077
After 5 years	**1,149**	1,903
	19,631	21,560

20 Investment Properties and Other Property, Plant and Equipment *(continued)*

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

21 Service Concession Assets

Movements and analysis of the Group's service concession assets are as follows:

in HK$ million	KCRC Rail Merger: Initial concession property	KCRC Rail Merger: Additional concession property	Additional concession property (High Speed Rail)	Additional concession property (Tuen Ma Line)	Shenzhen Metro Line 4	Shenzhen Metro Line 13	MTR Nordic	TfL Rail/ Elizabeth Line	Total
2021									
Cost									
At 1 January 2021	**15,226**	**20,220**	**180**	**27**	**8,937**	**–**	**86**	**60**	**44,736**
Net additions during the year	**–**	**2,198**	**69**	**78**	**101**	**925**	**–**	**–**	**3,371**
Disposals	**–**	**(253)**	**–**	**–**	**(101)**	**–**	**–**	**–**	**(354)**
Transfer from other property, plant and equipment (note 20)	**–**	**9**	**–**	**11**	**–**	**–**	**–**	**–**	**20**
Reclassification within service concession assets	**–**	**(44)**	**–**	**44**	**–**	**–**	**–**	**–**	**–**
Exchange differences	**–**	**–**	**–**	**–**	**275**	**–**	**(8)**	**–**	**267**
At 31 December 2021	**15,226**	**22,130**	**249**	**160**	**9,212**	**925**	**78**	**60**	**48,040**
Accumulated amortisation									
At 1 January 2021	**3,985**	**4,321**	**4**	**1**	**3,432**	**–**	**74**	**44**	**11,861**
Charge for the year	**304**	**906**	**19**	**2**	**384**	**–**	**2**	**7**	**1,624**
Written-off on disposals	**–**	**(212)**	**–**	**–**	**(53)**	**–**	**–**	**–**	**(265)**
Exchange differences	**–**	**–**	**–**	**–**	**113**	**–**	**(7)**	**–**	**106**
At 31 December 2021	**4,289**	**5,015**	**23**	**3**	**3,876**	**–**	**69**	**51**	**13,326**
Net book value at 31 December 2021	**10,937**	**17,115**	**226**	**157**	**5,336**	**925**	**9**	**9**	**34,714**

21 Service Concession Assets *(continued)*

in HK$ million	KCRC Rail Merger: Initial concession property	KCRC Rail Merger: Additional concession property	Additional concession property (High Speed Rail)	Additional concession property (Tuen Ma Line)	Shenzhen Metro Line 4	Shenzhen Metro Line 13	MTR Nordic	TfL Rail/ Elizabeth Line	Total
2020									
Cost									
At 1 January 2020	15,226	17,582	51	–	8,460	–	76	58	41,453
Net additions during the year	–	2,741	129	10	57	–	–	–	2,937
Disposals	–	(97)	–	–	(91)	–	–	–	(188)
Transfer from other property, plant and equipment (note 20)	–	3	–	8	–	–	–	–	11
Reclassification within service concession assets	–	(9)	–	9	–	–	–	–	–
Exchange differences	–	–	–	–	511	–	10	2	523
At 31 December 2020	15,226	20,220	180	27	8,937	–	86	60	44,736
Accumulated amortisation									
At 1 January 2020	3,680	3,509	–	–	2,903	–	63	37	10,192
Charge for the year	305	894	4	1	384	–	2	6	1,596
Written-off on disposals	–	(82)	–	–	(53)	–	–	–	(135)
Exchange differences	–	–	–	–	198	–	9	1	208
At 31 December 2020	3,985	4,321	4	1	3,432	–	74	44	11,861
Net book value at 31 December 2020	11,241	15,899	176	26	5,505	–	12	16	32,875

SZL4 forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. In July 2020, the Shenzhen Municipal Government has announced a fare adjustment framework for Shenzhen Metro network that came into effect on 1 January 2021. The framework sets out the mechanism of fare setting and the procedures of fare adjustment. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 31 December 2021. If a suitable fare adjustment mechanism is not put in place, the long-term financial viability of SZL4 is expected to be impacted.

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the upgrade of the initial concession property after inception of the Rail Merger. Additional concession property (High Speed Rail) and additional concession property (Tuen Ma Line) relate to the expenditures for the upgrade of the concession property of High Speed Rail and Tuen Ma Line respectively.

On 30 October 2020, MTR CREG Metro (Shenzhen) Company Ltd., a subsidiary of the Company, signed the Project Concession Agreement with the Shenzhen Municipal Government for a Build-Operate-Transfer ("BOT") project in respect of the construction of SZL13 and the operation of SZL13 for a term of 30 years. Accordingly, the fair value of construction services rendered during the year ended 31 December 2021 of HK$925 million was capitalised as service concession assets. Operation service commencement of SZL13 is expected in 2023.

22 Railway Construction Projects under Entrustment by the HKSAR Government

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

(a) HSR Preliminary Entrustment Agreement

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

(b) HSR Entrustment Agreement

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "**HSR Entrustment Agreement**"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "**Entrustment Cost**") and for paying to the Company a fee in accordance with an agreed payment schedule (the "**HSR Project Management Fee**") (subsequent amendments to these arrangements are described below). As of 31 December 2021, the Company had received full payment of the HSR Project Management Fee from the HKSAR Government.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "**Liability Cap**"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (as defined hereunder) (if any) under the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (as more particularly described in note 22A(c)(iv) below), up to the date of this annual report, no claim has been received from the HKSAR Government.

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

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

- the HSR would be completed in the third quarter of 2018 (including programme contingency of six months) (the "**HSR Revised Programme**"); and
- the total project cost of HK$85.3 billion (including contingency), based on the HSR Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "**Revised Cost Estimate**"). Further particulars relating to the Revised Cost Estimate are set out in notes 22A(c) and (e) below.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(c) HSR Agreement

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "**HSR Agreement**") relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 22A(c)(vi) below) and provides that:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion (which includes the original budgeted cost of HK$65 billion plus the agreed increase in the estimated project cost of HK$19.42 billion (the portion of the entrustment cost (up to HK$84.42 billion) that exceeds HK$65 billion being the "**Current Cost Overrun**"));

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "**Further Cost Overrun**") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);

(iii) The Company will pay a special dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche) ("**Special Dividend**"). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement ("**Entrustment Agreements**") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the HSR Entrustment Agreement, the Liability Cap is equal to the HSR Project Management Fee and any other fees that the Company receives under HSR Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the HSR Project Management Fee is increased in accordance with the HSR Agreement (as it will be equal to the increased HSR Project Management Fee under the HSR Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

(v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in HSR Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under the HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;

(vi) The arrangements under the HSR Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

The HSR Agreement (and the Special Dividend) was approved by the Company's independent shareholders at the General Meeting held on 1 February 2016 and became unconditional upon approval by the Legislative Council on 11 March 2016 of the HKSAR Government's additional funding obligations.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(d) Operations of HSR

On 23 August 2018, the Company and KCRC entered into the supplemental service concession agreement for the HSR ("**SSCA-HSR**") to supplement the Service Concession Agreement dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

(e) Based on the Company's latest review of the Revised Cost Estimate for the agreed scope of the project and having taken account of the opinion of independent experts including one on the review of the Revised Cost Estimate, the Company believes that, although the latest final project cost is likely to come close to the Revised Cost Estimate, the Revised Cost Estimate is still achievable and there is no current need to revise further such estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed the Revised Cost Estimate, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds the Revised Cost Estimate (if any) except for certain agreed excluded costs (as more particularly described in note 22A(c)(ii) above).

(f) The Company has not made any provision in its consolidated accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in note 22A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 31 December 2021 and up to the date of this annual report; (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

(g) Total HSR Project Management Fee and the additional fees referred to above, of HK$6,548 million in aggregate, have been recognised in consolidated profit and loss account in the prior years.

In relation to the sufficiency of the HSR Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the HSR Project Management Fee. Accordingly, an appropriate amount of provision was recognised in the consolidated profit and loss account in the prior years.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project

(a) SCL Agreements

The Company and the HKSAR Government entered into the SCL Preliminary Entrustment Agreement ("**SCL EA1**") in 2008, the SCL Advance Works Entrustment Agreement ("**SCL EA2**") in 2011, and the SCL Entrustment Agreement ("**SCL EA3**") in 2012 (together, the "**SCL Agreements**"), in relation to the SCL.

Pursuant to the SCL EA1, the Company is responsible for carrying out or procuring the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible for funding directly the total cost of such activities.

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs ("**EA2 Advance Works Costs**"). The EA2 Advance Works Costs and the Interface Works Costs (as described below) are reimbursable by the HKSAR Government to the Company. During the year ended 31 December 2021, HK$124 million (2020: HK$122 million) of such costs were incurred by the Company, which are payable by the HKSAR Government. As at 31 December 2021, the amount of such costs which remained outstanding from the HKSAR Government was HK$246 million (as at 31 December 2020: HK$1,035 million).

The SCL EA3 was entered into in 2012 for the construction and commissioning of the SCL. The HKSAR Government is responsible for bearing all the work costs specified in the SCL EA3 including costs to contractors and costs to the Company ("**Interface Works Costs**") (which the Company would pay upfront and recover from the HKSAR Government) except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The total sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL EA3, including project management fee, was HK$70,827 million ("**Original Entrusted Amount**").

The Company is responsible for carrying out or procuring the carrying out of the works specified in the SCL Agreements for a project management fee of HK$7,893 million (the "**Original PMC**"). As at 31 December 2021, the Company has received full payment of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. During the year ended 31 December 2021, no Original PMC was recognised in the consolidated profit and loss account (2020: HK$565 million was recognised). The total Original PMC of HK$7,893 million has been fully recognised in the consolidated profit and loss account in previous years.

(b) SCL EA3 Cost Overrun

(i) Cost to Complete

The Company has previously announced that, due to the continuing challenges posed by external factors, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete ("**CTC**") and would need to be revised upwards significantly. The Company carried out a detailed review of the estimated CTC for the main construction works in 2017 and submitted a revised estimated total CTC of HK$87,328 million, including an increase in the project management fee payable to the Company ("**2017 CTC Estimate**") to the HKSAR Government on 5 December 2017, taking into account a number of factors, including issues such as archaeological relics, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites.

The Company then carried out and completed a further review and revalidation of the CTC and, on 10 February 2020, notified the HKSAR Government, in accordance with the terms of the SCL EA3, of the latest estimate of the CTC, being HK$82,999 million ("**2020 CTC Estimate**"), including additional project management fee payable to the Company of HK$1,371 million ("**Additional PMC**"), being the additional cost to the Company of carrying out its remaining project management responsibilities under the SCL EA3, as detailed in note 22B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company had already recognised a provision of HK$2 billion in its consolidated profit and loss account for the year ended 31 December 2019 (as detailed in note 22B(c)(iii) below). The 2020 CTC Estimate represents an increase of HK$12,172 million from the Original Entrusted Amount of HK$70,827 million, which is less than the increase in the 2017 CTC Estimate of HK$16,501 million.

In accordance with the terms of SCL EA3, the HKSAR Government issued its paper on 18 March 2020 to seek the approval of Legislative Council for additional funding required for the SCL Project amounting to HK$10,801 million ("**Additional Funding**") so that the SCL can be completed. On 12 June 2020, the Legislative Council approved the Additional Funding for the SCL Project. For the avoidance of doubt, the Additional Funding sought by the HKSAR Government and approved by the Legislative Council excluded the Hung Hom Incidents Related Costs (as detailed in note 22B(c)(iii) below) and any Additional PMC for the Company as further detailed in note 22B(b)(ii) below.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(ii) Additional PMC

As detailed in note 22B(b)(i) above and as previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events. Not only do these matters increase the cost of works, they also increase the cost to the Company of carrying out its project management responsibilities under the relevant SCL entrustment agreement, which is estimated to be around HK$1,371 million.

By December 2020, the aggregate amount of project management fee paid by the HKSAR Government to the Company in accordance with the payment schedule contained in the SCL EA3 was substantially close to the Original PMC (excluding, for the avoidance of doubt, the Additional PMC of HK$1,371 million previously sought by the Company) and has been expended in full by the Company. The Additional Funding approved by the Legislative Council did not include any Additional PMC for the Company which the Company had previously sought from the HKSAR Government. Therefore, the cost to the Company of continuing to comply with its project management obligations under the SCL EA3 is currently being met by the Company on an interim and without prejudice basis (to allow the SCL Project to progress in accordance with the latest programme) and the Company reserves its position as to the ultimate liability for such costs and as to its right to pursue the courses of action and remedies available under the SCL EA3.

However, given the Company's view that there has been a significant delay to the project programme and associated increase in project management costs to the Company, the Company has written to the HKSAR Government to restate the Company's belief that the Company is entitled (in accordance with the terms of the SCL EA3 and following the Company's receipt of independent expert advice) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. However, the HKSAR Government has responded to the Company by reiterating that the HKSAR Government considers there have not been any material modifications to any of the scope of works, entrustment activities and/or entrustment programme contained in the SCL EA3 and, as such, the HKSAR Government maintains its position of disagreement to any increase in the project management fee.

Despite the fact that this matter needs to be resolved, the Company has continued, and will continue, to comply with its project management obligations under the SCL EA3 and has met, and will continue to meet, the costs thereof, on an interim and without prejudice basis, to allow the SCL Project to progress in accordance with the latest programme in order to achieve a full opening of the SCL as soon as reasonably practicable, whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3.

(iii) Provision for the SCL PMC

After taking into account the matters described in note 22B(b)(ii) above, and in particular, the Company meeting, on an interim and without prejudice basis (whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3), the cost to the Company of continuing to comply with its project management obligations, the Group recognised a provision of HK$1,371 million, for the estimated additional cost to the Company of continuing to comply with its project management responsibilities, in its consolidated profit and loss account for the year ended 31 December 2020. During the year ended 31 December 2021, the provision utilised amounted to HK$533 million (2020: HK$45 million) and no provision was written back (2020: HK$nil). The provision of HK$793 million (2020: HK$1,326 million) (net of amount utilised) is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

This amount does not take into account any potential payment to the Company of any Additional PMC (whether in the circumstances that no overall settlement is reached and/or as a result of an award, settlement or otherwise). Accordingly, if any such potential payment becomes virtually certain, the amount of any such payment will be recognised and credited to the Company's consolidated profit and loss account in that financial period.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(c) Hung Hom Incidents

As stated in the Company's announcement dated 18 July 2019, there were allegations in 2018 concerning workmanship in relation to the Hung Hom Station extension ("**First Hung Hom Incident**"). The Company took immediate steps to investigate the issues, report the Company's findings to the HKSAR Government and reserve the Company's position against relevant contractors.

In late 2018 and early 2019, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel ("**NAT**"), the South Approach Tunnel ("**SAT**") and the Hung Hom Stabling Sidings ("**HHS**"), forming an addition to the First Hung Hom Incident ("**Second Hung Hom Incident**").

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

*(i) Commission of Inquiry ("**COI**")*

On 10 July 2018, the COI was set up by the HKSAR Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong). On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

On 26 March 2019, the HKSAR Government published the redacted interim report of the COI in which the COI found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material aspects.

On 18 July 2019, the Company submitted to the HKSAR Government two separate final reports, one in respect of the First Hung Hom Incident and one in respect of the Second Hung Hom Incident, containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance. These suitable measures have been implemented.

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions to the COI, that there was failure on the part of both the Company and the contractor Leighton Contractors Asia Limited to perform the obligations which the two parties undertook for the SCL project and that the Company, which was entrusted by the HKSAR Government as the project manager of the SCL project, ought to have provided the requisite degree of skill and care reasonably expected of a professional and competent project manager.

On 12 May 2020, the HKSAR Government published the final report of the COI in which the COI determined that it is fully satisfied that, with the suitable measures in place, the station box, NAT, SAT and HHS structures will be safe and also fit for purpose. The suitable measures for these structures were completed in 2020. The COI also made a number of comments on the construction process (including regarding failures in respect thereof such as unacceptable incidents of poor workmanship compounded by lax supervision and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations to the Company for the future.

*(ii) Expert Adviser Team ("**EAT**")*

On 1 February 2021, the EAT on the SCL project, which was appointed by the HKSAR Government in August 2018 to conduct an overall review of the Company's project management system and recommend additional management and monitoring measures to be undertaken by the Company and the HKSAR Government in taking forward the SCL project, has submitted its final report to the HKSAR Government. The report noted that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of the suitable measures. The EAT has also put forward in the report recommendations to the Company and the HKSAR Government for the continuous improvement of railway project management.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(iii) Provision for the Hung Hom Incidents Related Costs

In July 2019, the HKSAR Government accepted the Company's recommendation that the Tuen Ma Line (Tai Wai to Hung Hom Section of the SCL) should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station ("**Phased Opening**") which occurred on 14 February 2020.

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company announced in July 2019 that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening) ("**Hung Hom Incidents Related Costs**"), whilst reserving the Company's position as to the ultimate liability for such costs.

The Company and the HKSAR Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs. If no overall settlement is reached between the Company and the HKSAR Government within a reasonable period, the provisions of the SCL EA3 shall continue to apply (as they currently do) including in relation to such costs, and the responsibility for the funding of such costs shall be determined in accordance with the SCL EA3.

After taking into account the matters described in note 22B(c) above, and in particular, the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK$2,000 million in its consolidated profit and loss account for the year ended 31 December 2019. During the year ended 31 December 2021, the provision utilised amounted to HK$206 million (2020: HK$566 million) and no provision was written back (2020: HK$nil). The provision of HK$944 million (2020: HK$1,150 million) (net of amount utilised) is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and/or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated profit and loss account in that financial period.

(d) Mixed Fleet Operation Incident

On 11 September 2020, the Company announced the delay in service commencement of the new East Rail Line ("**EAL**") signalling system and introduction of new nine-car trains which was originally scheduled for 12 September 2020 (collectively "**Mixed Fleet Operation Incident**"), following a review on the new signalling system conducted by the Company prior to service commencement.

On 13 September 2020, the Company announced the setting up of the Investigation Panel to look into the Mixed Fleet Operation Incident and to submit an investigation report to the HKSAR Government. On 21 January 2021, the Company submitted to the HKSAR Government for its review the report from the Investigation Panel. The Company acknowledged and accepted the findings of the Investigation Panel which include a finding that the issue concerned in the Mixed Fleet Operation Incident is not an issue of safety but of service reliability. The Company also accepted and will implement the recommendations made in the report. Following the satisfactory completion of further additional testing and approval by relevant HKSAR Government departments, the new signalling system and the new nine-car trains on the EAL were commissioned on 6 February 2021 in preparation for extending the EAL across the harbour to Admiralty Station.

(e) Potential Claims from and Indemnification to the HKSAR Government

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL EA3, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI (as stated in note 22B(c)(i) above), up to the date of this annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

The eventual outcome of the discussions between the Company and the HKSAR Government on various matters including the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Hung Hom Incidents Related Costs and the level of recovery from relevant parties remain highly uncertain at the current stage. As a result, no additional provision other than as stated above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no provision in respect of the SCL Project related matters was recognised at 31 December 2021 other than as stated above, the Company will reassess on an ongoing basis the need to recognise any further provision in the future in light of any further development.

22 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(f) Phased Opening of SCL

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020 including the supplemental service concession agreement ("**SSCA1-SCL**") signed with KCRC.

On 21 June 2021, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the entire Tuen Ma Line in substantially the same manner as the existing railway network for a period of two years from 27 June 2021 including the supplemental service concession agreement ("**SSCA2-SCL**") signed with KCRC. The SSCA2-SCL replaced the SSCA1-SCL. Prior to the full opening of the SCL, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire SCL (which is intended to replace the SSCA2-SCL, except for any provisions that are expressly agreed to remain in effect thereafter).

23 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the land over the stations along railway lines.

As at 31 December 2021, the outstanding Hong Kong Property Development Projects of the Company mainly include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites in Wong Chuk Hang, Kwun Tong Line Extension Property Project at sites in Ho Man Tin, and East Rail Line/Light Rail Property Projects at sites along the related railway lines.

A Property Development in Progress

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 31 December
2021					
Hong Kong Property Development Projects	**11,942**	**600**	**(834)**	**(493)**	**11,215**
2020					
Hong Kong Property Development Projects	12,022	687	(276)	(491)	11,942

The lease terms of leasehold land in Hong Kong included under property development in progress are between 10 and 50 years.

B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension, South Island Line and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the consolidated statement of financial position. As at 31 December 2021, the balance of the stakeholding funds was HK$36,320 million (2020: HK$16,034 million).

C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2021, HK$67 million (2020: HK$42 million) of agency fee and other income in respect of West Rail property development was recognised (note 12). During the year ended 31 December 2021, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$59 million (2020: HK$70 million).

24 Investments in Subsidiaries

The following list contains the particulars of principal subsidiaries of the Company as at 31 December 2021:

		Proportion of ownership interest				
Name of company	Issued share capital/ contributed registered capital	Group's effective interest	Held by the Company	Held by subsidiary(ies)	Place of incorporation/ establishment and operation	Principal activities
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operating the Tung Chung to Ngong Ping cable car system and theme village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment and management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900	60% on ordinary shares;	–	100% on ordinary shares;	Australia	Railway operations and maintenance
	AUD100	30% on Class A shares	–	100% on Class A shares		
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Railway operations and maintenance
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Design, delivery and integration of railway related systems
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macao	Railway consultancy services
MTR Railway Operations (Macau) Company Limited	MOP25,000	100%	–	100%	Macao	Railway operations and management
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Mälartåg AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co., Ltd.^@	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR Corporation (Shenzhen) Limited^@	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR CREG Metro (Shenzhen) Company Ltd.#@	RMB1,720,000,000	83%	–	83%	The People's Republic of China	Railway construction and operations
MTR Property Development (Shenzhen) Company Limited#@	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance

* Subsidiaries not audited by KPMG

^ Wholly foreign owned enterprise registered under the People's Republic of China (PRC) Law

\# Sino-foreign equity joint venture registered under PRC Law

@ English translation for identification purpose only

The Directors of the Company are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which, in the opinion of the Directors, materially contribute to the Group's results, assets or liabilities.

25 Interests in Associates and Joint Ventures

The following list contains the particulars of material associates and joint venture as at 31 December 2021, all of which are unlisted corporate entities whose quoted market price is not available:

	Proportion of ownership interest				
Name of company	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Associates					
Octopus Holdings Limited ("OHL")	57.4%	57.4%	–	Hong Kong	Holding company of a group of companies which engage in the operation of a contactless smartcard common payment system in Hong Kong and consultancy services
Beijing MTR Corporation Limited ~ @	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited α @	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited* ~ @	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited*	30%	–	30%	United Kingdom	Railway operations and management
NRT Pty Ltd*	27.55%	–	27.55%	Australia	Financing, railway operations and maintenance
Joint Venture					
Hangzhou MTR Line 5 Corporation Limited ~ @	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

* Companies not audited by KPMG

~ Sino-foreign co-operative joint venture registered under PRC Law

α Limited liability company (wholly owned by a legal person) under PRC Law

@ English translation for identification purpose only

All the associates and joint ventures are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

In January 2022, the Company has acquired a total of 6.6% additional shares of OHL from Citybus Limited and New World First Bus Services Limited (subsidiaries of Bravo Transport Services Limited). After the acquisition, the Company's shareholding in OHL increased from 57.4% to 64.0%. The Group regards OHL and its subsidiaries (the "OHL Group") as associates as the Company cannot control the OHL Group's activities unilaterally taking into account the Company's voting rights at the board meetings of OHL.

25 Interests in Associates and Joint Ventures *(continued)*

The summary financial information of the Group's effective interests in associates and joint ventures is as follows:

in HK$ million	2021	2020
Assets	**33,179**	30,576
Liabilities	**(20,789)**	(19,036)
Net assets	**12,390**	11,540
Income	**7,906**	6,228
Expenses and others	**(6,494)**	(5,412)
Profit before taxation	**1,412**	816
Income tax	**(444)**	(211)
Net profit	**968**	605
Other comprehensive income	**304**	600
Total comprehensive income	**1,272**	1,205
Group's share of net assets of the associates and joint ventures	**12,390**	11,540
Goodwill	**52**	52
Carrying amount in the consolidated statement of financial position	**12,442**	11,592

In May 2021, First MTR South Western Trains Limited, an associate of the Company which the Company holds a 30% shareholding and FirstGroup plc in the United Kingdom holds a 70% shareholding, entered into a National Rail Contract ("NRC") with the Department for Transport ("DfT") of the United Kingdom following the end of the Emergency Recovery Measures Agreement. The NRC commenced on 30 May 2021 and will have a primary two-year term to the end of May 2023, with an option to be extended by up to two further years at the DfT's discretion.

26 Investments in Securities

Investments in securities at 31 December 2021 are measured at FVPL and represented investments in unlisted equity securities held by subsidiaries in the Mainland China of HK$708 million (2020: HK$254 million), listed debt securities held by an overseas insurance underwriting subsidiary of HK$272 million (2020: HK$214 million) and investments in bank medium-term notes held by the Company of HK$499 million (2020: HK$nil). As at 31 December 2021, all debt securities were expected to mature within one year except for HK$225 million (2020: HK$154 million) which were expected to mature after one year. Net fair value gain on investments in securities of HK$28 million (2020: HK$8 million) was recognised in 2021.

27 Properties Held for Sale

in HK$ million	2021	2020
Properties held for sale		
– at cost	**614**	1,159
– at net realisable value	**25**	641
	639	1,800
Representing:		
Hong Kong property development	**543**	1,572
Mainland China property development	**96**	228
	639	1,800

Properties held for sale represent the Group's interest in unsold properties or properties received by the Group as sharing-in-kind in Hong Kong, and the Group's unsold properties in the Mainland China.

For Hong Kong property development, the net realisable values as at 31 December 2021 and 2020 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Colliers International (Hong Kong) Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value of the Group are stated net of provision of HK$4 million (2020: HK$8 million) made in order to state these properties at the lower of their cost and estimated net realisable value. The remaining lease terms of leasehold land in Hong Kong included under properties held for sale are between 10 and 50 years.

28 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2021							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	498	1					
– inflow			499	–	–	–	499
– outflow			(498)	–	–	–	(498)
– cash flow hedges:	128	2					
– inflow			33	97	–	–	130
– outflow			(32)	(96)	–	–	(128)
– not qualified for hedge accounting:	111	1					
– inflow			104	8	–	–	112
– outflow			(103)	(8)	–	–	(111)
Cross currency swaps							
– fair value hedges:	4,969	159					
– inflow			2,078	972	1,513	707	5,270
– outflow			(1,917)	(904)	(1,496)	(698)	(5,015)
– cash flow hedges:	12,742	145					
– inflow			262	262	6,210	10,871	17,605
– outflow			(240)	(240)	(6,150)	(10,760)	(17,390)
Net settled:							
Interest rate swaps							
– fair value hedges	2,400	26	26	6	2	(1)	33
– cash flow hedges	500	17	(3)	1	8	12	18
– not qualified for hedge accounting	2,034	12	(2)	2	6	7	13
	23,382	363	207	100	93	138	538
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	3,450	10					
– inflow			1,974	1,476	–	–	3,450
– outflow			(1,980)	(1,480)	–	–	(3,460)
– cash flow hedges:	424	15					
– inflow			197	57	151	4	409
– outflow			(203)	(59)	(158)	(4)	(424)
– not qualified for hedge accounting:	276	15					
– inflow			206	20	35	–	261
– outflow			(218)	(21)	(37)	–	(276)
Cross currency swaps							
– fair value hedges:	783	5					
– inflow			13	13	38	837	901
– outflow			(5)	(11)	(41)	(840)	(897)
– cash flow hedges:	9,654	515					
– inflow			202	485	720	9,365	10,772
– outflow			(217)	(561)	(817)	(9,660)	(11,255)
Net settled:							
Interest rate swaps							
– not qualified for hedge accounting	300	1	3	1	(2)	(3)	(1)
	14,887	561	(28)	(80)	(111)	(301)	(520)
Total	38,269						

28 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				
			Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2020							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	386	11					
– inflow			269	78	40	9	396
– outflow			(263)	(75)	(39)	(9)	(386)
– not qualified for hedge accounting:	482	19					
– inflow			471	30	1	–	502
– outflow			(453)	(28)	(1)	–	(482)
Cross currency swaps							
– fair value hedges:	2,333	110					
– inflow			1,274	14	478	705	2,471
– outflow			(1,176)	(3)	(466)	(698)	(2,343)
– cash flow hedges:	12,797	277					
– inflow			279	280	840	16,629	18,028
– outflow			(249)	(248)	(746)	(16,432)	(17,675)
Net settled:							
Interest rate swaps							
– fair value hedges	4,390	62	55	21	15	–	91
– cash flow hedges	250	1	(2)	(2)	(2)	7	1
– not qualified for hedge accounting	413	–	–	–	–	–	–
	21,051	480	205	67	120	211	603
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,960	25					
– inflow			1,960	–	–	–	1,960
– outflow			(1,985)	–	–	–	(1,985)
– cash flow hedges:	7	1					
– inflow			–	1	5	–	6
– outflow			–	(2)	(5)	–	(7)
– not qualified for hedge accounting:	1,390	6					
– inflow			1,371	19	–	–	1,390
– outflow			(1,377)	(19)	–	–	(1,396)
Cross currency swaps							
– cash flow hedges:	5,730	301					
– inflow			126	127	649	5,728	6,630
– outflow			(146)	(146)	(759)	(5,873)	(6,924)
Net settled:							
Interest rate swaps							
– cash flow hedges	3,250	47	(21)	(16)	(33)	22	(48)
– not qualified for hedge accounting	1,734	1	1	–	(1)	–	–
	14,071	381	(71)	(36)	(144)	(123)	(374)
Total	35,122						

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2021 and 2020 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.159% to 1.680% (2020: 0.163% to 1.105%) for Hong Kong dollars, 0.209% to 1.700% (2020: 0.164% to 1.189%) for United States dollars, 0.015% to 2.118% (2020: 0.020% to 1.325%) for Australian dollars and -0.043% to 0.259% (2020: -0.058% to 0.183%) for Japanese yen.

The table above details the remaining contractual maturities at the end of the reporting period of the Group's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay. The details of the fair value measurement are disclosed in note 41.

28 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") for the Company is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Company's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. These instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Company are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements at the parent company level as specified in the Model. The Company also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

As at 31 December 2021, the Group had undrawn committed banking facility of HK$15,523 million (2020: HK$10,049 million).

The following table details the remaining contractual maturities at the end of the reporting period of the Group's loans and other obligations other than lease liabilities (as detailed in note 33D below), which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2021				2020			
in HK$ million	Capital market instruments	Bank loans	Others	Total	Capital market instruments	Bank loans	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**30,068**	**1,040**	**–**	**31,108**	35,782	731	–	36,513
Amounts repayable within a period of between 2 and 5 years	**9,368**	**710**	**620**	**10,698**	3,881	1,979	618	6,478
Amounts repayable within a period of between 1 and 2 years	**1,992**	**1,758**	**–**	**3,750**	3,220	234	–	3,454
Amounts repayable within 1 year	**6,698**	**1,843**	**–**	**8,541**	4,985	9,608	–	14,593
	48,126	**5,351**	**620**	**54,097**	47,868	12,552	618	61,038

Others represent obligations under lease out/lease back transaction (note 20E).

The Group's exposure to liquidity risks in respect of derivative financial liabilities (note 28A), lease liabilities (note 33D), creditors, other payables and provisions (note 34), amounts due to related parties (note 35), obligations under service concession (note 36), and loans from holders of non-controlling interests (note 37) are disclosed in the respective notes.

28 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risks respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 45% and 75% (2020: 45% and 75%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2021, 70% (2020: 70%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2021, it is estimated that a 100 basis points increase/25 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and increase/decrease the Group's retained profits by approximately HK$76 million/HK$15 million. Other components of consolidated equity would increase/decrease by approximately HK$99 million/ HK$14 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonably possible change in interest rates over the period until the next annual financial period.

In 2020, a similar analysis was performed based on the assumption of a 100 basis points increase/25 basis points decrease in interest rates, which would decrease/increase the Group's loss after tax and increase/decrease the Group's retained profits by approximately HK$73 million/ HK$18 million. Other components of consolidated equity would increase/decrease by approximately HK$195 million/HK$52 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as overseas investment and procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt at the parent company level as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Company would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 20E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of the reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its consolidated statement of financial position. As at the end of the reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Group also manages and controls its exposure to credit risk in respect of receivables as stated in note 30.

29 Stores and Spares

As at 31 December 2021, stores and spares net of provision for obsolete stock of HK$23 million (2020: HK$19 million) amounted to HK$2,129 million (2020: HK$2,014 million), of which HK$1,452 million (2020: HK$1,434 million) is expected to be consumed within 1 year and HK$677 million (2020: HK$580 million) is expected to be consumed after 1 year. Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

30 Debtors and Other Receivables

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 30 (ii) below) is collected either through Octopus Cards and QR code with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 30 days.

(ii) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) Fare revenue from SZL4 is collected either through Shenzhen Tong Cards or QR code payment with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTRX in Sweden is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month. Service fees from Macao Light Rapid Transit Taipa Line are billed monthly with due dates in accordance with the terms of the service agreement.

(iv) Franchise revenue in Australia is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for TfL Rail/Elizabeth Line is collected once every 4 weeks.

(v) Rentals, advertising and telecommunication service fees are billed monthly with due dates ranging from immediately due to 60 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vii) Consultancy service income is billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(viii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(ix) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors by due date is analysed as follows:

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

Included in other receivables as at 31 December 2021 was HK$4,300 million (2020: HK$3,387 million) in respect of property development profit in Hong Kong distributable from stakeholding funds and receivables from property purchasers based on the terms of the development agreements and sales and purchase agreements.

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

30 Debtors and Other Receivables *(continued)*

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

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR") at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The disposal was completed on 10 July 2017 and consequently a prepayment is recognised on the consolidated statement of financial position. A performance bond in the amount of RMB1.6 billion (HK$1.9 billion) issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

The Group's exposure to credit risk on debtors and other receivables mainly relates to debtors relating to rental receivables in Hong Kong and franchise fee/project fee receivables outside of Hong Kong. Given the Group's policy is to receive rental deposits from tenants in Hong Kong and the debtors in relation to the franchise fee/project fee receivables outside of Hong Kong are government related entities, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2021, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$4,910 million (2020: HK$4,844 million) which were expected to be recovered after more than one year. The nominal values less credit losses are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	**2021**	2020
Australian dollars	**8**	8
Renminbi	**75**	12
United States dollars	**17**	12

31 Amounts Due from Related Parties

in HK$ million	**2021**	2020
Amounts due from:		
– HKSAR Government	**757**	2,504
– KCRC	**3,507**	2,859
– associates	**120**	99
	4,384	5,462

As at 31 December 2021, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line, reimbursement of the fare revenue difference in relation to the "Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities", agency fee receivables and reimbursable costs in respect of West Rail property development (note 23C), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail.

Given the amounts due from related parties mainly related to HKSAR Government and government related entity, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2021, all amounts due from related parties were expected to be recovered within one year except for HK$2,273 million (2020: HK$2,077 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

32 Cash, Bank Balances and Deposits

in HK$ million	2021	2020
Deposits with banks and other financial institutions	**15,769**	10,869
Cash at banks and on hand	**5,201**	10,037
Cash, bank balances and deposits	**20,970**	20,906
Less: Bank deposits with more than three months to maturity when placed or pledged deposits (note 33E)	**(10,218)**	(9,027)
Cash and cash equivalents in the consolidated cash flow statement	**10,752**	11,879

Included in cash, bank balance and deposits in the consolidated statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2021	2020
Australian dollars	**26**	33
Euros	**13**	13
Japanese yen	**826**	957
Pound sterling	**2**	210
United States dollars	**321**	442

33 Loans and Other Obligations

A By Type

	2021			2020		
in HK$ million	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2023 to 2047 (2020: due during 2023 to 2047)	**21,654**	**23,468**	**21,715**	18,382	21,555	18,575
Unlisted:						
Debt issuance programme notes due during 2022 to 2055 (2020: due during 2021 to 2055)	**15,373**	**17,634**	**15,792**	17,614	21,143	17,767
Total capital market instruments	**37,027**	**41,102**	**37,507**	35,996	42,698	36,342
Bank loans	**3,501**	**3,501**	**3,501**	9,287	9,287	9,293
Lease liabilities	**1,026**	**1,060**	**1,026**	1,180	1,240	1,180
Others	**548**	**603**	**548**	520	611	520
Loans and other obligations	**42,102**	**46,266**	**42,582**	46,983	53,836	47,335
Short-term loans	**1,650**	**1,650**	**1,650**	3,357	3,357	3,357
Total	**43,752**	**47,916**	**44,232**	50,340	57,193	50,692

Others include non-defeased obligations under lease out/lease back transaction (note 20E).

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments. The carrying amounts of short-term loans approximated their fair values. Details of the fair value measurement are disclosed in note 41.

33 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

	Before hedging activities		After hedging activities	
in million	**2021**	2020	**2021**	2020
Australian dollars	**431**	431	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
Renminbi	**3,610**	1,130	**–**	–
United States dollars	**2,230**	2,290	**–**	–

B By Repayment Terms

	2021					2020				
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Total	Capital market instruments	Bank loans	Lease liabilities	Others	Total
Loans and other obligations										
Amounts repayable beyond 5 years	**23,260**	**938**	**9**	**–**	**24,207**	28,119	807	15	–	28,941
Amounts repayable within a period of between 2 and 5 years	**7,271**	**667**	**141**	**548**	**8,627**	1,732	2,024	192	520	4,468
Amounts repayable within a period of between 1 and 2 years	**1,226**	**1,735**	**299**	**–**	**3,260**	2,430	231	322	–	2,983
Amounts repayable within 1 year	**5,750**	**161**	**577**	**–**	**6,488**	4,061	6,231	651	–	10,943
	37,507	**3,501**	**1,026**	**548**	**42,582**	36,342	9,293	1,180	520	47,335
Short-term loans	**–**	**1,650**	**–**	**–**	**1,650**	–	3,357	–	–	3,357
	37,507	**5,151**	**1,026**	**548**	**44,232**	36,342	12,650	1,180	520	50,692
Less: Unamortised discount/premium/finance charges outstanding	**(266)**	**–**	**–**	**–**	**(266)**	(286)	(6)	–	–	(292)
Adjustment due to fair value change of financial instruments	**(214)**	**–**	**–**	**–**	**(214)**	(60)	–	–	–	(60)
Total carrying amount of debt	**37,027**	**5,151**	**1,026**	**548**	**43,752**	35,996	12,644	1,180	520	50,340

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2021 and 2020 comprise:

	2021		2020	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**5,225**	**5,225**	14,642	14,511

During the year ended 31 December 2021, the Company issued RMB2,600 million (HK$3,097 million) of its listed debt securities (2020: RMB410 million (HK$465 million) and USD1,200 million (HK$9,300 million) in the respective currency), and issued HK$1,418 million and RMB600 million (HK$710 million) of its unlisted debt securities in the respective currency (2020: HK$3,630 million, RMB720 million (HK$782 million), and USD60 million (HK$465 million) in the respective currency).

As at 31 December 2021 and 2020, there were outstanding debt securities issued by a wholly-owned subsidiary, MTR Corporation (C.I.) Limited ("MTRCI"). The obligations of the debt securities issued by MTRCI are direct, unsecured and unsubordinated to the other unsecured obligations of MTRCI which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2021, the Group redeemed HK$2,813 million, RMB720 million (HK$783 million) and USD60 million (HK$465 million) of its unlisted debt securities in the respective currency (2020: HK$2,348 million and USD100 million (HK$783 million)) and did not redeem any of its listed debt securities (2020: HK$nil).

33 Loans and Other Obligations *(continued)*

D Lease Liabilities

At 31 December 2021 and 2020, the Group had lease liabilities as follows:

in HK$ million	2021 Present value of the minimum lease payments	2021 Total minimum lease payments	2020 Present value of the minimum lease payments	2020 Total minimum lease payments
Within 1 year	**577**	**603**	651	704
After 1 year but within 2 years	**299**	**317**	322	343
After 2 years but within 5 years	**141**	**149**	192	206
After 5 years	**9**	**9**	15	16
	449	**475**	529	565
	1,026	**1,078**	1,180	1,269
Less: Total future interest expenses		**(52)**		(89)
Present value of lease obligations		**1,026**		1,180

E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2021 and 2020.

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

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

Save as disclosed above and those disclosed elsewhere in the consolidated accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2021.

34 Creditors, Other Payables and Provisions

in HK$ million	2021	2020
Creditors and accrued charges	**18,620**	19,419
Other payables and provisions (notes 22B(b)(iii)&(c)(iii))	**18,583**	14,974
Contract liabilities	**2,874**	2,444
	40,077	36,837

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

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

The Group's general payment terms are one to two months from the invoice date.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

34 Creditors, Other Payables and Provisions *(continued)*

A Creditors and Accrued Charges *(continued)*

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2021	2020
Australian dollars	**25**	9
Canadian dollars	**5**	–
Euros	**92**	18
Japanese yen	**50**	–
Pound sterling	**43**	4
Renminbi	**84**	113
Swiss franc	**3**	–
United States dollars	**102**	28

B Other Payables

Other payables comprised contract retentions and deferred income. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, as well as the unutilised government subsidy for SZL4 operation.

C Contract Liabilities

Movements in contract liabilities of the Group during the year ended 31 December are as follows:

in HK$ million	2021	2020
Balance as at 1 January	**2,444**	2,213
Increase in contract liabilities as a result of billing in advance	**1,283**	981
Decrease in contract liabilities as a result of revenue recognised during the year that was included in the contract liabilities at the beginning of the year	**(859)**	(836)
Exchange differences	**6**	86
Balance as at 31 December	**2,874**	2,444

Contract liabilities mainly arise from construction contracts and other project arrangements, when the Group receives a deposit before the activity commences and until the revenue recognised on the project exceeds the amount of the deposit received. The payment terms are negotiated on a case by case basis with customers.

As at 31 December 2021, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK$22,076 million (2020: HK$16,043 million), including contract liabilities of HK$707 million (2020: HK$963 million), of the Group which were expected to be settled or recognised as income after one year. The amounts due after one year for the Group as at 31 December 2021 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid/refunded within three years. The Group considers the effect of discounting would be immaterial.

35 Amounts Due to Related Parties

in HK$ million	2021	2020
Amounts due to:		
– HKSAR Government	**86**	94
– KCRC	**333**	301
– associates	**60**	58
	479	453

The amount due to the HKSAR Government as at 31 December 2021 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2021 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

36 Obligations under Service Concession

Movements of the Group's obligations under service concessions are as follows:

in HK$ million	2021	2020
Balance as at 1 January	**10,295**	10,350
Less: Net amount repaid during the year	**(70)**	(65)
Exchange differences	**6**	10
Balance as at 31 December	**10,231**	10,295

The outstanding balances as at 31 December 2021 and 2020 are repayable as follows:

	2021			2020		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	**9,806**	**13,682**	**23,488**	9,904	14,346	24,250
Amounts repayable within a period of between 2 and 5 years	**272**	**2,015**	**2,287**	247	1,976	2,223
Amounts repayable within a period of between 1 and 2 years	**79**	**683**	**762**	74	688	762
Amounts repayable within 1 year	**74**	**688**	**762**	70	692	762
	10,231	**17,068**	**27,299**	10,295	17,702	27,997

37 Loans from Holders of Non-controlling Interests

Loans from holders of non-controlling interests as at 31 December 2021 mainly represents the portion of total shareholder loan of AUD60 million (HK$340 million) (2020: AUD60 million (HK$359 million)) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

38 Income Tax in the Consolidated Statement of Financial Position

A Current taxation in the consolidated statement of financial position includes:

in HK$ million	2021	2020
Balance relating to Hong Kong Profits Tax	**2,359**	898
Balance relating to tax outside Hong Kong	**22**	106
	2,381	1,004

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2021						
Balance as at 1 January 2021	**13,365**	**723**	**(314)**	**29**	**(148)**	**13,655**
Charged/(credited) to consolidated profit and loss account	**302**	**(30)**	**(225)**	**–**	**36**	**83**
Charged/(credited) to reserves	**–**	**23**	**43**	**(28)**	**–**	**38**
Exchange differences	**2**	**–**	**33**	**–**	**8**	**43**
Balance as at 31 December 2021	**13,669**	**716**	**(463)**	**1**	**(104)**	**13,819**
2020						
Balance as at 1 January 2020	13,007	778	(123)	43	(110)	13,595
Charged/(credited) to consolidated profit and loss account	356	(1)	(292)	–	(20)	43
(Credited)/charged to reserves	–	(54)	141	(14)	–	73
Exchange differences	2	–	(40)	–	(18)	(56)
Balance as at 31 December 2020	13,365	723	(314)	29	(148)	13,655

in HK$ million	2021	2020
Net deferred tax assets	**(599)**	(470)
Net deferred tax liabilities	**14,418**	14,125
	13,819	13,655

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$416 million (2020: HK$410 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2021		2020	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,180,927,873**	**59,666**	6,157,948,911	58,804
Shares issued in respect of scrip dividend of 2020/2019 final ordinary dividend	**8,510,398**	**369**	18,426,649	692
Shares issued in respect of scrip dividend of 2021/2020 interim ordinary dividend	**1,676,743**	**74**	2,004,813	81
Vesting of shares of Executive Share Incentive Scheme	**–**	**3**	–	6
Shares issued under the share option scheme	**2,347,500**	**72**	2,547,500	83
At 31 December	**6,193,462,514**	**60,184**	6,180,927,873	59,666

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

B Shares Held for Executive Share Incentive Scheme

During the year ended 31 December 2021, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 42(ii)). In this regard, a total of 1,558,050 Performance Shares (2020: 6,950) and 1,955,950 Restricted Shares (2020: 2,334,750) were awarded and accepted by the grantees on 8 April 2021 (2020: 8 April 2020). The fair values of these Award Shares were HK$44.05 per share (2020: HK$41.90).

During the year ended 31 December 2021, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 2,650,000 Ordinary Shares (2020: 2,020,000 Ordinary Shares) of the Company for a total consideration of approximately HK$116 million (2020: HK$86 million). During the year ended 31 December 2021, 45,520 Ordinary Shares of the Company (2020: 58,339 Ordinary Shares) were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$2 million (2020: HK$3 million).

During the year ended 31 December 2021, 2,996,112 shares (2020: 1,984,400 shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$135 million (2020: HK$90 million). During the year ended 31 December 2021, HK$3 million (2020: HK$6 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2021, 878,626 award shares (2020: 283,673 award shares) were lapsed/forfeited.

As at 31 December 2021, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 5,647,073 shares (2020: 5,947,665) held in trust under the Executive Share Incentive Scheme (excluding shares vested but not yet transferred to awardees).

C New Shares Issued and Fully Paid Up during the Year

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	**2,347,500**	**28.65**

An analysis of the Company's outstanding share options as at 31 December 2020 is disclosed in note 42.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management *(continued)*

D Reserves

The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied buildings (note 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2V(ii).

The employee share-based capital reserve comprises the share-based payment expenses recognised in respect of share options under the share option scheme which are yet to be exercised, and in respect of award shares under the Executive Share Incentive Scheme granted which are yet to be vested, as explained in the accounting policy under note 2W(iii). The amount will either be transferred to the share capital account when the option is exercised or when the award share is vested, or be released directly to retained profits if the option is lapsed.

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2AC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on fair value measurement of investment properties of HK$66,033 million (2020: HK$67,350 million) included in retained profits of the Company are non-distributable as they do not constitute realised profits. As at 31 December 2021, the Company considers that the total amount of reserves of the Company available for distribution to shareholders amounted to HK$41,830 million (2020: HK$38,932 million).

Included in the Group's retained profits as at 31 December 2021 is an amount of HK$3,263 million (2020: HK$2,656 million), being the retained profits attributable to the associates and joint ventures.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2021, representing 74.82% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated based on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, obligations under service concession and loans from holders of non-controlling interests net of cash and cash equivalents and bank medium-term notes. As at 31 December 2021, the Group's net debt-to-equity ratio is 18.1% (2020: 22.5%).

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the SZL4 project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. All the Group's subsidiaries in Sweden are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2021, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Reserves, Company-level Movements in Components of Equity and Capital Management *(continued)*

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

			Other reserves					
in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total equity
2021								
Balance as at 1 January 2021	48	**59,666**	**(262)**	**3,662**	**(52)**	**181**	**106,334**	**169,529**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**9,093**	**9,093**
Other comprehensive income/(loss) for the year		**–**	**–**	**119**	**(117)**	**–**	**217**	**219**
Total comprehensive income/(loss) for the year		**–**	**–**	**119**	**(117)**	**–**	**9,310**	**9,312**
Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**(3)**	**–**	**–**	**(3)**
2020 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(6,060)**	**(6,060)**
Shares issued in respect of scrip dividend of 2020 final ordinary dividend		**369**	**(1)**	**–**	**–**	**–**	**1**	**369**
2021 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(1,548)**	**(1,548)**
Shares issued in respect of scrip dividend of 2021 interim ordinary dividend		**74**	**(1)**	**–**	**–**	**–**	**1**	**74**
Shares purchased for Executive Share Incentive Scheme		**–**	**(116)**	**–**	**–**	**–**	**–**	**(116)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		**3**	**135**	**–**	**–**	**(135)**	**(3)**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**83**	**–**	**83**
Employee share options exercised		**72**	**–**	**–**	**–**	**(5)**	**–**	**67**
Balance as at 31 December 2021	48	**60,184**	**(245)**	**3,781**	**(172)**	**124**	**108,035**	**171,707**
2020								
Balance as at 1 January 2020		58,804	(263)	3,936	175	160	117,510	180,322
Loss for the year		–	–	–	–	–	(4,311)	(4,311)
Other comprehensive (loss)/income for the year		–	–	(274)	(227)	–	715	214
Total comprehensive loss for the year		–	–	(274)	(227)	–	(3,596)	(4,097)
2019 final ordinary dividend		–	–	–	–	–	(6,036)	(6,036)
Shares issued in respect of scrip dividend of 2019 final ordinary dividend		692	(2)	–	–	–	2	692
2020 interim ordinary dividend		–	–	–	–	–	(1,545)	(1,545)
Shares issued in respect of scrip dividend of 2020 interim ordinary dividend		81	(1)	–	–	–	1	81
Shares purchased for Executive Share Incentive Scheme		–	(86)	–	–	–	–	(86)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		6	90	–	–	(94)	(2)	–
Employee share-based payments		–	–	–	–	121	–	121
Employee share options exercised		83	–	–	–	(6)	–	77
Balance as at 31 December 2020	48	59,666	(262)	3,662	(52)	181	106,334	169,529

40 Other Cash Flow Information

A Reconciliation of the Group's operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment from recurrent businesses to cash generated from operations is as follows:

in HK$ million	2021	2020
Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment from recurrent businesses	**8,019**	5,194
Adjustments for non-cash items	**169**	1,519
Operating profit before working capital changes	**8,188**	6,713
Decrease/(increase) in debtors and other receivables	**813**	(3,583)
Increase in stores and spares	**(153)**	(119)
Decrease in creditors and other payables	**(515)**	(463)
Cash generated from operations	**8,333**	2,548

B Reconciliation of the Group's liabilities arising from financing activities is as follows:

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Short-term loans	Interest and finance charges payables	Total
2021							
At 1 January 2021	**35,996**	**9,287**	**1,180**	**520**	**3,357**	**150**	**50,490**
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	**5,225**	**4,381**	**–**	**–**	**6,926**	**–**	**16,532**
– Repayment of loans and capital market instruments	**(4,061)**	**(10,210)**	**–**	**–**	**(8,638)**	**–**	**(22,909)**
– Capital element of lease rentals paid	**–**	**–**	**(206)**	**–**	**–**	**–**	**(206)**
– Interest and finance charges	**–**	**–**	**–**	**–**	**–**	**(910)**	**(910)**
	1,164	**(5,829)**	**(206)**	**–**	**(1,712)**	**(910)**	**(7,493)**
Exchange differences	**1**	**42**	**(57)**	**3**	**–**	**–**	**(11)**
Other changes:							
– Adjustment due to fair value change of financial instruments	**(134)**	**6**	**–**	**–**	**–**	**–**	**(128)**
– Recognition of lease liabilities	**–**	**–**	**109**	**–**	**–**	**–**	**109**
– Interest and finance charges	**–**	**–**	**–**	**25**	**–**	**899**	**924**
– Reclassifications	**–**	**(5)**	**–**	**–**	**5**	**–**	**–**
	(134)	**1**	**109**	**25**	**5**	**899**	**905**
At 31 December 2021	**37,027**	**3,501**	**1,026**	**548**	**1,650**	**139**	**43,891**

40 Other Cash Flow Information *(continued)*

B Reconciliation of the Group's liabilities arising from financing activities is as follows *(continued)*:

in HK$ million	Loans and other obligations: Capital market instruments	Bank loans	Lease liabilities	Others	Short-term loans	Interest and finance charges payables	Total
2020							
At 1 January 2020	24,204	10,141	1,241	499	3,371	145	39,601
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	14,511	12,287	–	–	74	–	26,872
– Repayment of loans and capital market instruments	(3,130)	(13,274)	–	–	(91)	–	(16,495)
– Capital element of lease rentals paid	–	–	(232)	–	–	–	(232)
– Interest and finance charges	–	–	–	–	–	(1,039)	(1,039)
	11,381	(987)	(232)	–	(17)	(1,039)	9,106
Exchange differences	4	133	107	(4)	3	(7)	236
Other changes:							
– Adjustment due to fair value change of financial instruments	407	–	–	–	–	–	407
– Recognition of lease liabilities	–	–	64	–	–	–	64
– Interest and finance charges	–	–	–	25	–	1,051	1,076
	407	–	64	25	–	1,051	1,547
At 31 December 2020	35,996	9,287	1,180	520	3,357	150	50,490

C Total Cash Outflow for Leases

Amounts included in the cash flow statement for leases comprise the following:

in HK$ million	2021	2020
Within operating cash flows	**41**	36
Within financing cash flows	**257**	288
	298	324

These amounts relate to the leases of the following:

in HK$ million	2021	2020
Buildings	**193**	197
Plant and equipment	**105**	127
	298	324

41 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

41 Fair Value Measurement *(continued)*

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties and self-occupied buildings measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied buildings were revalued as at 31 December 2021 and 2020 by independent qualified surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2021 was 3.5% – 5.75% (2020: 3.5% – 5.75%) with a weighted average of 4.8% (2020: 4.8%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2021 are shown in note 20A. All the fair value adjustment related to investment properties held as at 31 December 2021 was recognised under "Loss from fair value measurement of investment properties" in the consolidated profit and loss account.

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

All of the Group's investments in listed debt securities were carried at fair value using Level 1 measurements, and the fair value of these financial assets as at 31 December 2021 was HK$272 million (2020: HK$214 million). The derivative financial instruments and investments in bank medium-term notes were carried at fair value using Level 2 measurements. As at 31 December 2021, the fair values of derivative financial assets, derivative financial liabilities and investment in bank medium-term notes were HK$363 million (2020: HK$480 million), HK$561 million (2020: HK$381 million) and HK$499 million (2020: HK$nil) respectively. The investments in unlisted equity securities of HK$708 million (2020: HK$254 million) were carried at fair value using Level 3 measurements.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings, derivative financial instruments and investment in bank medium-term notes. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies and the cross currency basis curves of the respective currency pairs at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

The fair value of the Group's investments in unlisted equity securities is determined based on the adjusted net asset method. The significant unobservable input includes the fair value of the individual assets less liabilities (recognised and unrecognised). The fair value measurement is positively correlated to the fair value of the individual assets less liabilities (recognised and unrecognised). The movements of the investments in unlisted equity securities during the year are as follows:

in HK$ million	2021	2020
At 1 January	**254**	–
Additions	**421**	254
Changes in fair value recognised in profit or loss	**25**	–
Exchange differences recognised in other comprehensive income	**8**	–
At 31 December	**708**	254

As at 31 December 2021, it is estimated that a 5-percent increase/decrease (2020: 5-percent increase/decrease) in fair value of the total individual assets less liabilities (recognised and unrecognised), with all other variables held constant, would increase/decrease the Group's profit after tax by approximately HK$27 million/HK$27 million (2020: decrease/increase the Group's loss after tax by approximately HK$13 million/ HK$13 million).

At the end of each interim and annual reporting period, valuations are performed for the financial instruments which are categorised into Level 3 of the fair value hierarchy, and the valuation assumptions and results are reviewed by the Group's management accordingly.

During the years ended 31 December 2021 and 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

41 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2021 and 2020 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 31 December 2021		At 31 December 2020	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**37,027**	**41,102**	35,996	42,698
Other obligations	**1,574**	**1,663**	1,700	1,851

The above fair value measurement is categorised as Level 2. The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

42 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2021, all outstanding share options granted under the 2007 Share Option Scheme had been exercised and/or lapsed and the Group maintained the Executive Share Incentive Scheme. Details of the schemes are as follows:

(i) 2007 Share Option Scheme

Following the expiry of the New Joiners Share Option Scheme (the "New Option Scheme") in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The 2007 Option Scheme expired in June 2014. All the share options granted were vested prior to 2018.

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2021		2020	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding as at 1 January	**2,347,500**	**28.650**	4,909,000	29.426
Exercised during the year	**(2,347,500)**	**28.650**	(2,547,500)	30.146
Forfeited during the year	–	–	(14,000)	28.650
Outstanding as at 31 December	–	–	2,347,500	28.650
Exercisable as at 31 December	–	–	2,347,500	28.650

42 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

The following table summarises the outstanding share options as at 31 December 2020 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2014 Award			
30 May 2014	2,347,500	28.65	on or prior to 23 May 2021

The weighted average closing price in respect of the share options exercised during the year ended 31 December 2021 was HK$44.516 (2020: HK$42.138).

Share options outstanding at the end of the reporting period had the following exercise prices and remaining contractual lives:

	2021		2020	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$28.65	–	–	2,347,500	0.4

During the year ended 31 December 2021, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme (2020: HK$nil).

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded to selective eligible employees. Performance Shares are awarded to eligible employees which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions as determined by the Remuneration Committee from time to time.

Subject to the Scheme Rules, the Remuneration Committee shall determine the vesting criteria and conditions or periods for the Award Shares to be vested, subject to review from time to time. An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The Executive Share Incentive Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust Deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

As at 31 December 2021, the following awards of shares with vesting period falling in the years ended 31 December 2020 and 2021 were offered to Members of the Executive Directorate and selected employees of the Group under the Executive Share Incentive Scheme:

	Number of Award Shares granted		Average fair value per share	Vesting period	
Date of award	Restricted Shares	Performance Shares	HK$	From	To
10 April 2017	2,245,200	–	44.45	3 April 2017	3 April 2020
10 April 2018	2,208,950	1,772,900	42.80	3 April 2018	3 April 2021 (Restricted Shares) 3 April 2021 (Performance Shares)
1 April 2019	120,000	–	48.90	1 April 2019	31 March 2022
8 April 2019	1,942,150	244,650	48.40	1 April 2019	1 April 2022 (Restricted Shares) 3 April 2021 (Performance Shares)
8 April 2020	2,334,750	6,950	41.90	1 April 2020	1 April 2023 (Restricted Shares) 3 April 2021 (Performance Shares)
8 April 2021	**1,955,950**	**1,558,050**	**44.05**	**1 April 2021**	**1 April 2024 (Restricted Shares)** **1 April 2024 (Performance Shares)**

42 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Movement in the number of Award Shares outstanding was as follows:

	2021	2020
	Number of Award Shares	Number of Award Shares
Outstanding as at 1 January	**5,733,605**	5,659,978
Awarded during the year	**3,514,000**	2,341,700
Vested during the year	**(2,996,112)**	(1,984,400)
Forfeited during the year	**(878,626)**	(283,673)
Outstanding as at 31 December	**5,372,867**	5,733,605

Award Shares outstanding at 31 December 2021 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
1 April 2019	0.25	120,000
8 April 2019	0.25	515,840
8 April 2020	1.25	1,345,777
8 April 2021	**2.25**	**1,863,500**
Performance Shares		
8 April 2021	**2.25**	**1,527,750**

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2021, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$83 million (2020: HK$121 million).

43 Retirement Schemes

The Group operates or participates in a number of retirement schemes in Hong Kong, the Mainland China, Macao, the United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2021, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted with an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme had been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times years of service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2021, the total number of member was 2,844 (2020: 3,100). In 2021, members contributed HK$59 million (2020: HK$65 million) and the Company contributed HK$36 million (2020: HK$253 million) to the MTR Retirement Scheme. The fair value of scheme assets of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2021 was HK$9,294 million (2020: HK$9,855 million).

43 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

The actuarial valuations as at 31 December 2020 and 2021 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, which is represented by Ms Wing Lui, a Fellow of the Society of Actuaries of the United States of America, using the Projected Unit Credit Method. The results of the valuation are shown in note 44.

The actuarial valuations as at 31 December 2020 and 2021 to determine the cash funding requirements were also carried out by Ms Wing Lui of Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2021 included a long-term rate of investment return net of salary increases of 0.50% (2020: 0.25%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement.

As at the valuation date of 31 December 2021:

(a) the MTR Retirement Scheme was solvent, covering 113.4% (2020: 113.8%) of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency surplus of HK$1,126 million; and

(b) on the assumption that the MTR Retirement Scheme would continue in force, its value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 113.2% (2020: 113.2%), representing a past service surplus of HK$1,110 million.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted with an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, investment returns on these contributions, together with year of services. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

As at 31 December 2021, the total number of employees participating in the MTR Provident Fund Scheme was 10,411 (2020: 10,614). In 2021, total members' contributions were HK$158 million (2020: HK$159 million) and total contributions from the Company were HK$366 million (2020: HK$372 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2020: HK$nil). As at 31 December 2021, forfeited contributions of HK$99 million (2020: HK$75 million) were available to reduce the contributions payable in future years. The net asset value as at 31 December 2021 was HK$7,804 million (2020: HK$7,523 million).

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2021, the total number of employees participating in the MTR MPF Scheme was 4,660 (2020: 5,068). In 2021, total members' contributions were HK$47 million (2020: HK$49 million) and total contribution from the Company were HK$51 million (2020: HK$52 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2020: HK$nil). As at 31 December 2021, there were no forfeited contributions (2020: HK$nil) available to reduce the contributions payable in future years.

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

As at 31 December 2021, the total number of employees participating in the KCRC MPF Scheme was 290 (2020: 329). In 2021, total members' contributions were HK$4 million (2020: HK$4 million) and total contribution from the Company were HK$4 million (2020: HK$4 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2020: HK$nil). As at the end of the reporting period, no forfeited contributions (2020: HK$nil) available to reduce the contributions payable in future years.

43 Retirement Schemes *(continued)*

B Retirement Schemes for Employees of Mainland China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2021, total number of the Group's employees participating in this scheme was 503 (2020: 533). In 2021, total members' contributions were HK$23 million (2020: HK$11 million) and total contribution from the Group was HK$69 million (2020: HK$62 million).

Certain employees of the Group's Swedish subsidiaries are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2021, total number of the Group's employees participating in this scheme was 754 (2020: 786). In 2021, total contribution from the Group was HK$22 million (2020: HK$20 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2021, total number of the Group's employees participating in this scheme was 791 (2020: 736). In 2021, total members' contributions were HK$33 million (2020: HK$26 million) and total contribution from the Group was HK$50 million (2020: HK$39 million). Pension expense of HK$95 million (2020: HK$86 million) was recognised in profit or loss and actuarial gain of HK$36 million (2020: HK$37 million) was recognised in the consolidated statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland China, Macao or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland China, Macao or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2021, the total number of employees of the Group participating in these schemes was 16,248 (2020: 16,161). In 2021, total members' contributions were HK$113 million (2020: HK$110 million) and total contribution from the Group was HK$631 million (2020: HK$493 million). During the years ended 31 December 2020 and 2021, the amount of contributions forfeited in accordance to the schemes' rules, if applicable, is not significant.

44 Defined Benefit Retirement Scheme

The Company makes contributions to and recognises defined benefit liabilities in respect of the MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 43). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A Amounts Recognised in the Consolidated Statement of Financial Position

in HK$ million	**2021**	2020
Present value of defined benefit obligations	**(8,887)**	(9,517)
Fair value of scheme assets	**9,294**	9,855
Net assets	**407**	338

The net assets are recognised under "Debtors and other receivables" in the consolidated statement of financial position. A portion of the above obligations is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$26 million in contribution to the MTR Retirement Scheme in 2022.

44 Defined Benefit Retirement Scheme *(continued)*

B Scheme Assets

in HK$ million	2021	2020
Equity securities		
– Financial institutions	**283**	396
– Non-financial institutions	**2,456**	4,091
	2,739	4,487
Bonds		
– Government	**1,339**	1,831
– Non-government	**2,234**	3,384
	3,573	5,215
Cash	**3,207**	367
	9,519	10,069
Voluntary units	**(225)**	(214)
	9,294	9,855

The scheme assets did not include any ordinary shares of the Company as at 31 December 2021 (2020: HK$nil). Also, there were no investment in other shares and debt securities of the Company as at 31 December 2021 and 2020. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the investment strategy was changed in 2021 to about 30% of the scheme assets held in cash and the remaining 70% invested according to a long-term strategic asset allocation of 42.5% in equities and 57.5% in bonds. The 30% of the scheme assets held in cash will be used to pay benefits and expected to be depleted within three years. After depletion, the long-term strategy asset allocation is expected to return to 42.5% in equities and 57.5% in bonds and cash (2020: 42.5% in equities and 57.5% in bonds and cash).

C Movements in the Present Value of the Defined Benefit Obligations

in HK$ million	2021	2020
At 1 January	**9,517**	9,905
Remeasurements:		
– Actuarial losses/(gains) arising from changes in liability experience	**17**	(127)
– Actuarial (gains)/losses arising from changes in demographic assumptions	**–**	–
– Actuarial (gains)/losses arising from changes in financial assumptions	**(5)**	163
	12	36
Members' contributions paid to the scheme	**59**	65
Benefits paid by the scheme	**(1,031)**	(1,000)
Current service cost	**226**	269
Interest cost	**104**	242
At 31 December	**8,887**	9,517

The weighted average duration of the present value of the defined benefit obligations was 5.3 years as at 31 December 2021 (2020: 5.6 years).

44 Defined Benefit Retirement Scheme *(continued)*

D Movements in Scheme Assets

in HK$ million	2021	2020
At 1 January	**9,855**	9,417
Company's contributions paid to the scheme	**36**	253
Members' contributions paid to the scheme	**59**	65
Benefits paid by the scheme	**(1,031)**	(1,000)
Administrative expenses paid from scheme assets	**(5)**	(5)
Interest income	**108**	233
Return on scheme assets, excluding interest income	**272**	892
At 31 December	**9,294**	9,855

E Expenses Recognised in Profit or Loss and Other Comprehensive Income

in HK$ million	2021	2020
Current service cost	**226**	269
Net interest on net defined benefit asset/liability	**(4)**	9
Administrative expenses paid from scheme assets	**5**	5
	227	283
Less: Amount capitalised	**(39)**	(49)
Net amount recognised in profit or loss	**188**	234
Actuarial losses	**12**	36
Return on scheme assets, excluding interest income	**(272)**	(892)
Amount recognised in other comprehensive income	**(260)**	(856)

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F Significant Actuarial Assumptions and Sensitivity Analysis

	2021	2020
Discount rate	**1.49%**	1.17%
Future salary increase	**3.00%**	2.75%
Unit value increase	**3.50%**	3.00%

The below analysis shows how the present value of the defined benefit obligations as at 31 December would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2021		2020	
	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million
Discount rate	**(113)**	**116**	(131)	135
Future salary increases	**84**	**(79)**	103	(98)
Unit value increase	**33**	**(30)**	32	(29)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

45 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 74.82% of the Company's issued share capital on trust for the HKSAR Government as at 31 December 2021, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an operating agreement which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 45C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("OA"), which is based on the then existing operating agreement referred to in note 45A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). A detailed description of the OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

D Other than the OA described in note 45C above, the Company also entered into principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger. These principal agreements are: (i) Merger Framework Agreement, (ii) Service Concession Agreement, (iii) Sale and Purchase Agreement, (iv) West Rail Agency Agreement, and (v) Property Package Agreements. For the year ended 31 December 2021, amount recoverable or invoiced by the Company under West Rail Agency Agreement is HK$61 million (2020: HK$57 million) and the net amounts payable or paid by the Company in relation to the Service Concession is HK$1,010 million (2020: HK$830 million).

The above agreements are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

E The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the High Speed Rail:

(i) An amendment operating agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that will apply to the High Speed Rail.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2021, net revenue received or receivable from KCRC in respect of the High Speed Rail amounted to HK$1,422 million (2020: HK$1,536 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

45 Material Related Party Transactions *(continued)*

F The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the Tuen Ma Line:

(i) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 11 February 2020, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the First Phase of the Tuen Ma Line.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 11 February 2020, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the First Phase of the Tuen Ma Line and to prescribe the operational and financial requirements that will apply to the First Phase of the Tuen Ma Line.

(iii) An amendment operating agreement, a supplemental operating agreement and the Amendment No.1 to Memorandum on Performance Requirements, which were entered into with the HKSAR Government on 21 June 2021, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the Tuen Ma Line.

(iv) A supplemental service concession agreement, which was entered into with KCRC on 21 June 2021 and superseded and replaced the supplemental service concession agreement dated 11 February 2020 (note 45F(ii)), to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the Tuen Ma Line and to prescribe the operational and financial requirements that will apply to the Tuen Ma Line.

During the year ended 31 December 2021, net revenue received or receivable from KCRC in respect of the Tuen Ma Line amounted to HK$205 million (2020: HK$276 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

G The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of HSR and SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2021 are provided in notes 22A and 22B. In addition, an amount of HK$263 million was paid/payable to the HKSAR Government (net of amount received/receivable) in 2021 (2020: HK$580 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

H In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government or allowed to proceed with the development at the following sites during the year:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Site E of Aberdeen Inland Lot No. 467	**8 February 2021**	**6,437**	**22 March 2021**
Site F of Aberdeen Inland Lot No. 467	**22 April 2021**	**4,946**	**27 May 2021**

I On 5 July 2013, the Company entered into a contract with the Hong Kong Airport Authority ("HKAA") for the maintenance of the Automated People Mover system at the Hong Kong International Airport ("System") for a seven-year period ("Previous Contract"), effective from 6 July 2013. The Previous Contract was extended for 6 months to 5 January 2021 and, on 2 July 2020, the Company entered into a new contract with the HKAA for the maintenance of the System for a seven-year period effective from 6 January 2021. In respect of the services provided, HK$146 million was recognised as consultancy income during the year ended 31 December 2021 (2020: HK$122 million).

On 18 May 2018, the Company provided a sub-contractor warranty to the HKAA as a result of obtaining a subcontract from a third party for the modification works of the existing System for seven-year period, effective from 25 September 2017 ("Subcontract"). The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

45 Material Related Party Transactions *(continued)*

J During the year ended 31 December 2021, the Group incurred HK$99 million (2020: HK$82 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of OHL. OCL incurred HK$26 million (2020: HK$25 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK$178 million (2020: HK$144 million) of dividends to the Group.

K During the year ended 31 December 2021, MTR Corporation (Sydney) NRT Pty Ltd, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty Ltd at a total amount of AUD3 million (HK$19 million) (2020: AUD13 million or HK$68 million). Metro Trains Sydney Pty Ltd also provided operations and maintenance services in respect of Sydney Metro North West to NRT Pty Ltd at a total amount of AUD103 million (HK$605 million) (2020: AUD99 million or HK$526 million) and mobilisation services in respect of Sydney Metro City & Southwest to NRT CSW Pty Ltd at a total amount of AUD6 million (HK$35 million) (2020: AUD6 million or HK$30 million). MTR Corporation (Sydney) SMCSW Pty Limited also provided delivery of electrical and mechanical systems and rolling stock as well as integration of railway system services to NRT CSW Pty Ltd at a total amount of AUD233 million (HK$1,376 million) (2020: AUD286 million or HK$1,540 million).

L Other than those stated in notes 45A to 45K, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 31 and 35.

M The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 11A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme and award shares under the Executive Share Incentive Scheme. Details of the terms of these options and award shares are disclosed in note 11B, note 11C and the Report of the Members of the Board. Their gross remuneration charged to the consolidated profit and loss account is summarised as follows:

in HK$ million	2021	2020
Short-term employee benefits	**80.1**	67.0
Post-employment benefits	**6.1**	6.6
Equity compensation benefits	**14.3**	21.6
	100.5	95.2

The above remuneration is included in staff costs and related expenses disclosed in note 10A.

N During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	2021	2020
Ordinary dividends		
– Cash dividends paid	**5,700**	5,700

46 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December not provided for in the consolidated accounts were as follows:

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland China and overseas operations	Total
At 31 December 2021					
Authorised but not yet contracted for	**10,741**	**5,773**	**2,242**	**28**	**18,784**
Authorised and contracted for	**19,670**	**1,413**	**1,364**	**35**	**22,482**
	30,411	**7,186**	**3,606**	**63**	**41,266**
At 31 December 2020					
Authorised but not yet contracted for	10,799	–	2,127	67	12,993
Authorised and contracted for	19,473	115	991	9	20,588
	30,272	115	3,118	76	33,581

In addition to the above, the Group has the following commitments in respect of its investments in subsidiary and associate:

In respect of Shenzhen Metro Line 13, the Group is responsible to contribute equity injection of up to RMB1,428 million. Up to the end of December 2021, the Group has contributed RMB357 million equity to the project.

In respect of Sydney Metro City & Southwest, the Group is expected to further contribute equity of approximately AUD12.7 million and loans of approximately AUD13.3 million to the project for the share of investment.

(ii) The commitments not provided for in the consolidated accounts under Hong Kong transport operations, station commercial and other businesses comprise the following:

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2021				
Authorised but not yet contracted for	**5,990**	**1,168**	**3,583**	**10,741**
Authorised and contracted for	**16,044**	**659**	**2,967**	**19,670**
	22,034	**1,827**	**6,550**	**30,411**
At 31 December 2020				
Authorised but not yet contracted for	5,395	1,533	3,871	10,799
Authorised and contracted for	16,121	491	2,861	19,473
	21,516	2,024	6,732	30,272

B Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2021, the Group had total outstanding liabilities and contractual commitments of HK$3,510 million (2020: HK$2,718 million) in respect of these works and services. Cash funds totalling HK$3,230 million (2020: HK$3,010 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

46 Commitments *(continued)*

C Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 33C), the Company has provided guarantees to the investors of approximately HK$18,131 million (in notional amount) as at 31 December 2021. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 20E), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$67 million (HK$524 million) as at 31 December 2021. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$66 million (HK$515 million) as at 31 December 2021.

In respect of the lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB13 million (HK$15 million) and a parent company guarantee of RMB53 million (HK$64 million) in respect of the quarterly rental payments to the landlord.

In respect of the SZL4 concession, the Group has provided to the Shenzhen Municipal Government a parent company guarantee in respect of MTR Corporation (Shenzhen) Limited's performance and other obligations under the concession agreement, which can be called if the performance and other obligations are not met.

In respect of the Melbourne train system franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD154 million (HK$873 million) and a performance bond of AUD59 million (HK$334 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the lease of the office premises, MTM has provided bank guarantees of AUD3 million (HK$15 million) for the monthly rental payments to the landlords.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$859 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK$859 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Mälartåg franchise in Stockholm, Sweden, the Group has provided to the Stockholm transport authorities a bank guarantee of SEK300 million (HK$258 million), which can be called if the franchise is terminated early as a result of default by MTR Mälartåg AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the TfL Rail/Elizabeth Line Franchise in London, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$847 million) and a performance bond of GBP25 million (HK$263 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro North West Franchise, the Group has provided to NRT Pty Ltd, an associate of the Group, a parent company guarantee with a liability cap of AUD1,526 million (HK$8,638 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD18 million (HK$101 million) for the performance and other obligations under the design and construction sub-contract. The Group has also provided a parent company guarantee with a liability cap of AUD148 million (HK$836 million) for the operation and maintenance of Sydney Metro North West, which can be called if the franchise is terminated early as a result of default by Metro Trains Sydney Pty Limited. The Group has also provided bank guarantee amounting to AUD25 million (HK$143 million) as at 31 December 2021 for the operation and maintenance of Sydney Metro North West.

In respect of the Sydney Metro City & Southwest Franchise, the Group has provided to NRT CSW Pty Ltd, an associate of the Group, a parent company guarantee with a liability cap of approximately AUD602 million (HK$3,408 million) for the integrator works under the integrator contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a parent company guarantee with a liability cap of approximately AUD28 million (HK$156 million) for the mobilisation phase of the operation and maintenance of Sydney Metro City & Southwest. The Group has also provided a parent company guarantee to Metro Trains Sydney Pty Ltd with a liability cap of approximately AUD221 million (HK$1,251 million) and a parent company guarantee to MTR Corporation (Sydney) SMCSW Pty Limited with a liability cap of approximately AUD221 million (HK$1,251 million) for the interface works under Sydney Metro North West and Sydney Metro City & Southwest.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport a parent company guarantee of GBP1.8 million (HK$18 million) and an early termination indemnity of GBP1.8 million (HK$18 million) as at 31 December 2021 for the performance and other obligations under the National Rail Contract. The group has provided a funding deed bond of GBP0.9 million (HK$9 million) and an early termination indemnity agreement bond of GBP0.9 million (HK$9 million) as at 31 December 2021 for aforementioned obligations. The Group has also provided to the Secretary of State for Transport a performance bond of GBP4.8 million (HK$51 million) as at 31 December 2021 for the performance and other obligations under the pre-existing franchise agreement.

46 Commitments *(continued)*

C Material Financial and Performance Guarantees *(continued)*

In respect of the various lines of the Macao Light Rapid Transit, the Group has provided to Macao Light Rapid Transit Corporation, Limited and the Infrastructures Development Bureau of the Macao SAR Government (Gabinete para o Desenvolvimento de Infra-estruturas) a number of bank guarantees amounting to MOP277 million (HK$270 million) as at 31 December 2021 for the performance and other obligations under the project.

In respect of the Hangzhou Metro Line 1 and Hangzhou Metro Line 5 concessions, the Group is required to provide handover bank bonds to the Hangzhou Municipal Government before the end of the concessions for a period of three years to cover any non-compliance of handover requirements under the concession agreements.

In respect of the Shenzhen Metro Line 13 concession, the Group is required to provide handover bank bonds to the Shenzhen Municipal Government before the end of the concessions for a period of three years to cover any non-compliance of handover requirements under the concession agreements.

No provision was recognised in respect of the above financial and performance guarantees as at 31 December 2021.

D Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the SCA to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession and recognised as obligations under service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

47 Effect on the Group of COVID-19 Fifth Wave in Hong Kong

With the onset of the fifth wave of COVID-19 infections in Hong Kong in 2022 driven from Omicron, the Group's Hong Kong transport operations, station commercial and property rental businesses are being significantly affected.

(i) Domestic Services

As a result of: (a) the further tightening of social distancing measures by the HKSAR Government; (b) the arrangements of the HKSAR Government and certain commercial organisations for their employees to work from home; (c) the suspension of face-to-face school classes and then bringing forward of school holidays; and (d) the significant reduction in local leisure travel within Hong Kong, there has been a significant negative impact on the patronage of the Group's domestic services.

(ii) Cross Boundary Services and Related Business

With the on-going closures of boundary crossings between Hong Kong and Mainland China, the Company continues to close: (a) Lo Wu and Lok Ma Chau stations of the East Rail Line; (b) the High Speed Rail service; (c) the intercity rail service from Hong Kong to Guangdong, Shanghai and Beijing; and (d) station shops at Lo Wu, Lok Ma Chau and West Kowloon stations. These closures have, in turn, resulted in there being no cross boundary patronage and hence loss of rental income from shops in these stations during the period of such closures.

(iii) Station Commercial and Property Rental Businesses

As a result of the fifth wave, there is a noticeable decrease of footfalls in stations on the Domestic Service and MTR malls in Hong Kong. The Group would consider granting rental abatements to the affected tenants on a case-by-case basis which would have a negative impact on the Group's rental income.

When taking into account the rail and property businesses as a whole, the directors of the Company is of the view that the overall financial position of the Group remains sound. The Company will continue to monitor the effect of COVID-19 on the financial position and business prospects of the Group.

48 Company-level Statement of Financial Position

in HK$ million	At 31 December 2021	At 31 December 2020
Assets		
Fixed assets		
– Investment properties	**82,492**	83,560
– Other property, plant and equipment	**99,513**	99,865
– Service concession assets	**28,393**	27,311
	210,398	210,736
Property management rights	**12**	16
Property development in progress	**11,215**	11,942
Deferred expenditure	**1,964**	1,116
Investments in subsidiaries	**2,479**	2,175
Interests in associates	**24**	24
Investments in securities	**499**	–
Properties held for sale	**543**	1,572
Derivative financial assets	**363**	480
Stores and spares	**1,483**	1,378
Debtors and other receivables	**9,287**	8,381
Amounts due from related parties	**20,978**	21,524
Cash, bank balances and deposits	**12,304**	11,769
	271,549	271,113
Liabilities		
Short-term loans	**1,599**	3,259
Creditors, other payables and provisions	**30,442**	27,781
Current taxation	**2,356**	898
Amounts due to related parties	**19,179**	19,800
Loans and other obligations	**21,395**	25,422
Obligations under service concession	**10,047**	10,114
Derivative financial liabilities	**561**	381
Deferred tax liabilities	**14,263**	13,929
	99,842	101,584
Net assets	**171,707**	169,529
Capital and reserves		
Share capital	**60,184**	59,666
Shares held for Executive Share Incentive Scheme	**(245)**	(262)
Other reserves	**111,768**	110,125
Total equity	**171,707**	169,529

Approved and authorised for issue by the Members of the Board on 10 March 2022

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

49 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2J).

(ii) Impairment of Long-lived Assets

- The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2I(ii). Long-lived assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs of disposal and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
- As at 31 December 2021, included in assets under construction is cost amounting to HK$2.4 billion incurred on a project ("New Signalling System") of replacing the existing signalling system ("SACEM System") of the Group's four urban lines (Island, Tseung Kwan O, Kwun Tong and Tsuen Wan Lines) in Hong Kong.

  Due to the technical complexity involved and the pandemic situation, the contractor for the New Signalling System is taking longer than expected to complete the software safety assurance processes required by the Group. The Group is working closely with the contractor to progress the project, together with necessary measures to replace certain assets and to equip new trains with the SACEM System so as to be able to continue to provide quality and reliable train services in the short term whilst the necessary assurance processes for the New Signalling System are in progress. Meanwhile, the Group started to study options and their associated costs, including the possibility of upgrading the existing SACEM System for the long run instead of the full implementation of the New Signalling System.

  As a result of the delay as referred to above, the Group is closely monitoring the progress of the signalling replacement project. In the event that the Company decides not to implement the whole, or any part, of the New Signalling System, the associated costs capitalised by then, to the extent not expected to bring future economic benefits to the Group, will be impaired and charged to the consolidated profit and loss account in the reporting period when such determination is made.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the scheme is dependent on certain assumptions and factors provided by the Group, which are disclosed in notes 43A(i) and 44F.

(iv) Profit Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold interests in properties at the lower of their costs and net realisable values (note 27) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

49 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following *(continued)*:

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms of the OA and the MTR Ordinance, the Company may apply for extensions of the franchise and the Secretary for Transport and Housing shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property and to the extent that the capital expenditure exceeds an agreed threshold ("Capex Threshold"), in an amount equal to any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value. The Group's depreciation policies (note 2J) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the consolidated accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

As detailed in note 30, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xi) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than as set out in note 22, as at 31 December 2021, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

50 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2021

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these accounts. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the conceptual framework*	1 January 2022
Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*	1 January 2022
Amendments to HKAS 37, *Onerous contracts – cost of fulfilling a contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
HKFRS 17 and amendments to HKFRS 17, *Insurance contracts*	1 January 2023

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts.

51 Comparative Figures

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

52 Approval of the Consolidated Accounts

The consolidated accounts were approved by the Board on 10 March 2022.

GLOSSARY

Airport Express	Train service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of Tuen Ma Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited, a company which was incorporated in Hong Kong under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 of the Laws of Hong Kong or the predecessor Companies Ordinance Chapter 32 of the Laws of Hong Kong (as the case may be))
Computershare	Computershare Hong Kong Investor Services Limited, the share registrar of the Company
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service) and Tuen Ma lines
EBITDA	Operating profit/loss before fair value measurement of investment properties, depreciation, amortisation, variable annual payment, share of profit or loss of associates and joint ventures, interests, finance charges and taxation
EBITDA Margin	EBITDA (excluding Hong Kong property development profit from share of surplus and interest in unsold properties) as a percentage of revenue
EBIT	Profit/loss before fair value measurement of investment properties, interest, finance charges and taxation and after variable annual payment
EBIT Margin	EBIT (excluding Hong Kong property development profit from share of surplus and interest in unsold properties, and share of profit of associates and joint ventures) as a percentage of revenue
Express Rail Link or High Speed Rail or HSR	Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, also known as Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) after the commencement of passenger service on 23 September 2018
Fare Index	A measure of customer satisfaction for the fares charged for Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Heavy Rail	Collective name for Domestic Service, Cross-boundary Service and Airport Express

GLOSSARY

Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity Service or Intercity	Intercity through train services operated between Hong Kong and major cities in Mainland China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before fair value measurement of investment properties, depreciation, amortisation, variable annual payment, share of profit or loss of associates and joint ventures, interests, finance charges and taxation divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Line 4 operation and accreted interest on loan to a property developer
KCRC	Kowloon-Canton Railway Corporation
KPMG	KPMG, Certified Public Accountants, the independent auditor of the Company. KPMG is a Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Light Rail	Light rail serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and 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
Operating Agreement	The agreement entered into by the Company and the Government on 30 June 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Ordinary Shares	Ordinary shares in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Ordinance	The Rail Merger Ordinance (Ordinance No.11 of 2007)
Return on Average Equity Attributable to Shareholders of the Company arising from Underlying Businesses	Profit attributable to shareholders of the Company arising from underlying businesses as a percentage of the average of the beginning and closing total equity attributable to shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in Mainland China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary, associate or joint venture of the Company to provide certain specified services for a specified period under a negotiated concession agreement
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic and Cross-boundary services, HSR, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research

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SHAREHOLDER SERVICES

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

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