

Our performance for the year showed a slowing of the decline in patronage and market share, reversing the trend of the previous three years. The MTR Lines, which comprises the three Urban Lines and the Tung Chung Line, recorded total patronage of 767 million for the year, down slightly from the 779 million for 1999. Our market share of total franchised public transport was 24.1% as compared to 25.2% in 1999. Continued growth in competition from bus services contributed to this decline. However, as the economy continues to strengthen, with road congestion increasing due to heavier traffic and new service areas for the MTR system opening with the Tseung Kwan O Extension, we anticipate a resumption in growth of our patronage and market share.

The market share for the Airport Express Line (AEL) also dropped from 32% to 28%, mainly because of the reduction in fare discount from mid-year. However, revenue for the AEL increased by 23% from HK\$445 million in 1999 to HK\$549 million in 2000 with the average fare increasing from HK\$42.8 to HK\$53.1. As the economy gathers momentum and the tourist industry rebounds, passenger volumes through Hong Kong Airport are expected to increase and the AEL will continue to be the preferred choice of transport, with its convenient In-town Check-in services and high-speed access between the city and the airport.

The Company will continue to provide a safe and reliable, cost efficient, and environmentally friendly mass transit

service for its passengers. We will achieve these objectives through the careful identification and planning of future transport needs, quality customer service and an integrated approach to the provision of railway services.

Service excellence

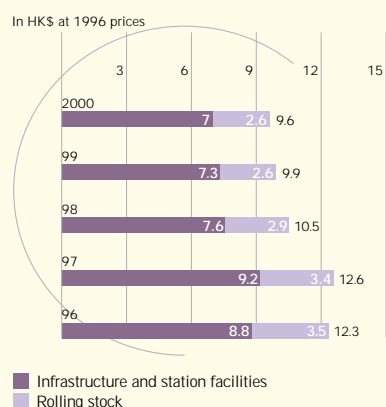
Under the Operating Agreement with Government, new standards of performance requirements have been established for the Company. These standards govern the reliability and service performance of MTR operations and are set against target levels based on the previous two years' operations. The Company is also required to establish Customer Service Pledges relating to the required standards with the addition of further Customer Service Pledges for the comfort of passengers. These service pledge target levels are voluntary and are set by the Company. For the year, all performance requirements were met and our own targets of service pledges were either met or exceeded. The safety performance of the railway improved in 2000 with the number of incidents reducing by nearly 13% to 748, the lowest number since 1995 and the number of incidents per million passengers served at 0.96 was the lowest for 5 years. There was a significant reduction in the number of accidents to MTR staff and contractors which stood at 36, the lowest level recorded for over 10 years.

The reliability of our railway and station equipment has

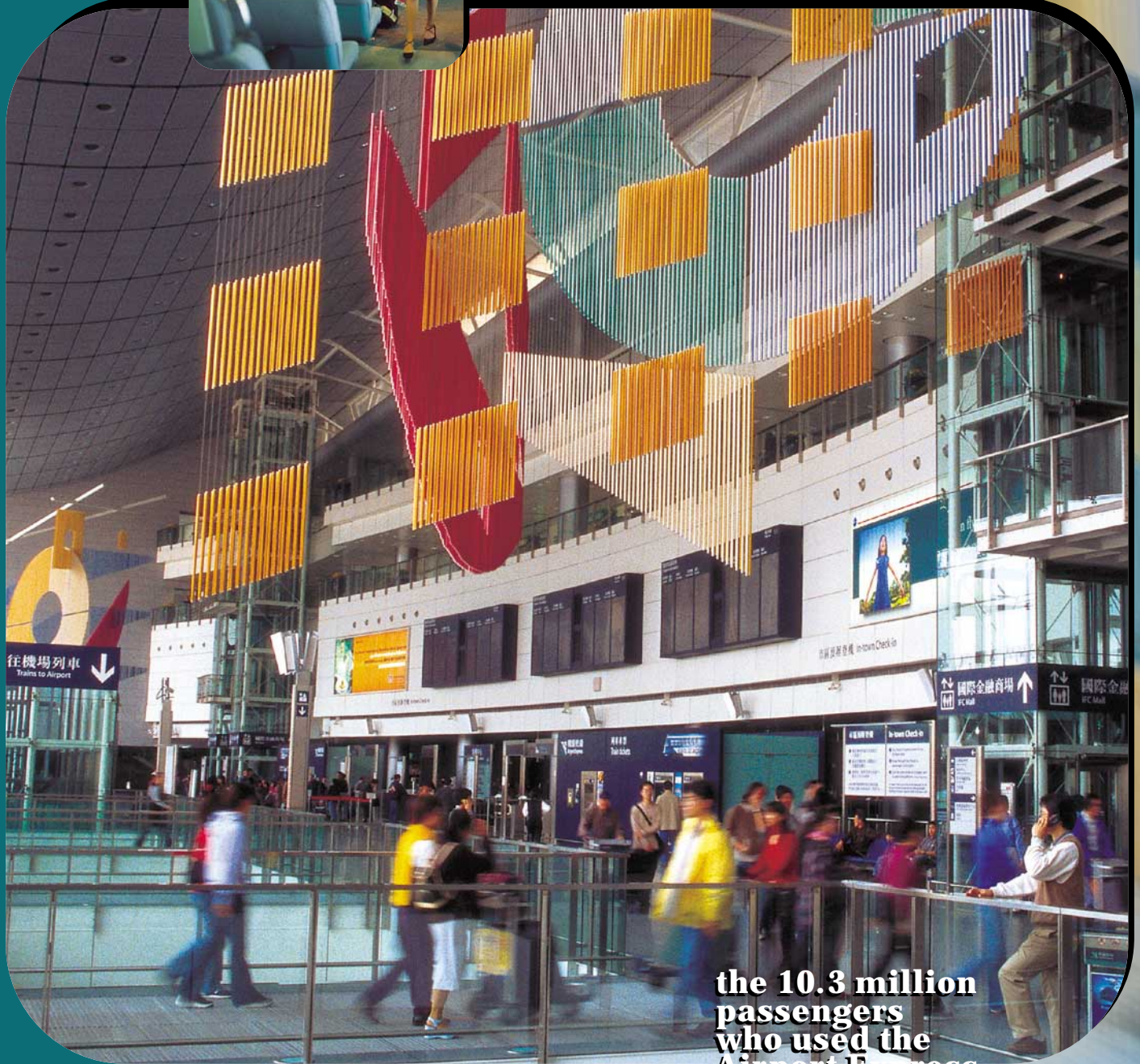
SYSTEM AND MARKET INFORMATION

Railway operations data	2000		1999	
	Morning peak	Evening peak	Morning peak	Evening peak
Total route length <i>in km</i>	82.2		82.2	
Number of rail cars	923		923	
Number of station kiosks and mini-banks at stations	377		371	
Number of poster advertising panels at stations	15,000		14,764	
Number of advertising panels in trains	10,384		-	
Daily hours of operation	19		19	
Minimum train headway <i>in seconds</i>				
• Tsuen Wan Line	120	150	120	150
• Kwun Tong Line	128	150	128	150
• Island Line	128	165	128	165
• Tung Chung Line				
Hong Kong – Tung Chung	600	600	600	600
Hong Kong – Tsing Yi	300	300	300	300
• Airport Express Line	600	600	600	600

RAILWAY MAINTENANCE COST PER REVENUE CAR KM (AT CONSTANT \$)



Continued productivity initiatives resulted in further reduction of overall maintenance costs per revenue car km in 2000 despite the expiry of the defects liability period for the Airport Railway.



the 10.3 million passengers who used the Airport Express during the year enjoyed in-town check-in services and a 23-minute ride to the airport

continued to improve, achieving 1,000 passenger trips per five-minute delay. In terms of convenience to our passengers, this would be equivalent on average to travelling twice a day, five days a week for almost two years before experiencing a delay of five minutes or more.

Under the Operating Agreement, the Company is required to monitor customer satisfaction for both the MTR Lines and the AEL. Station concourse interviews and customer-completed questionnaire surveys are conducted twice a year to measure 40 selected service attributes. The results are measured in the Service Quality Index (SQI) and the Fare Satisfaction Index (FSI). Important areas include train headway, safety, train service reliability, air-conditioning and crowding levels. In 2000 we achieved the highest ratings for satisfaction overall since the SQI and the FSI were first introduced in September 1996.

The Company maintained its excellent ratings against the international benchmarks set under the Community of Metros (CoMet) Group. This group, established in 1995, now includes 10 international mass transit operators and provides its members with a system to measure best practices and assist in railway management. It also helps members to identify, prioritise and share information on areas for improvement. In 2000, the Company commenced active participation in three new case studies that are of significant importance to railway operations world-wide: productivity in operations and maintenance, safety management and knowledge management. These case studies will be used to construct benchmarks from which CoMet members can formulate best practices and effectively manage these issues within the urban railway environment. The studies will be completed in 2001.

OPERATIONS PERFORMANCE PLEDGES IN 2000

	Customer service pledge target	Operating agreement target	Actual performance in 2000 *
Train service delivery	99.5%	98.5%	99.9%
Passenger journeys on time			
• MTR Lines	99.5%	98.5%	99.9%
• Airport Express Line	99.0%	98.0%	99.8%
Train punctuality			
• MTR Lines	99.0%	98.0%	99.4%
• Airport Express Line	99.0%	98.0%	99.9%
Train reliability: train car-km per train failure causing delays \geq 5 min	400,000 km	N.A.	649,464 km
Ticket reliability: magnetic ticket transactions per ticket failure	4,500	N.A.	11,038
Add value machine reliability	97.0%	95.5%	98.4%
Ticket issuing machine reliability	95.0%	93.0%	98.7%
Ticket gate reliability	98.0%	97.0%	99.6%
Escalator reliability	99.0%	98.0%	99.9%
Passenger lift reliability	99.0%	98.5%	99.8%
Temperature and ventilation			
• Trains: to maintain a cool, pleasant and comfortable train environment generally at a temperature at or below 26 °C	95.0%	N.A.	99.8%
• Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27 °C for platforms and 29 °C for stations concourses, except on very hot days	90.0%	N.A.	94.6%
Cleanliness			
• Train compartments: cleaned daily	95.0%	N.A.	100.0%
• Train exterior: washed every 2 days	95.0%	N.A.	99.9%

* The actual performance figures are for the operating period since the commencement of the Operating Agreement i.e. from July to December 2000.

Our reputation in service and safety excellence has been honoured with numerous awards and public recognition during the year. The Hong Kong Award for Services: Productivity organised by the Hong Kong Productivity Council, the Best Contribution Item from the Hong Kong Institute of Engineers and the Top Service Award 2000 by *Next* magazine all recognise the efforts made by the Company to achieve excellence in its operations and the delivery of safe and reliable mass transit services. The Company has become the first company in Hong Kong to obtain certification for ISO 9001:2000, the newly released international quality management standard by the Hong Kong Quality Assurance Agency (HKQAA).

The Art in Stations campaign was extended to all stations during the year to encourage local artists and to bring community activities into the station environs.

Efficiencies increase

The ongoing rationalisation and streamlining of our railway operations and corporate-wide cost reductions substantially contributed to improved bottom line performance for the year. Our total operating cost for 2000 was HK\$3,661 million, down from the previous year's HK\$3,759 million. We have reduced staff count for 2000 following the voluntary separation scheme without adversely affecting the system's performance, resulting in a boost in resource management and staff productivity. The reorganisation of operating and maintenance teams at the station level has enhanced efficiency and response capability. Combined with staff training to create single multi-skilled station teams, our station-level management strategy serves as the model for the Tseung Kwan O Line and future urban line operations.

Consolidation of the control of all lines into the Operations Control Centre at Tsing Yi was completed during the year without disruption to our service. This centre now controls

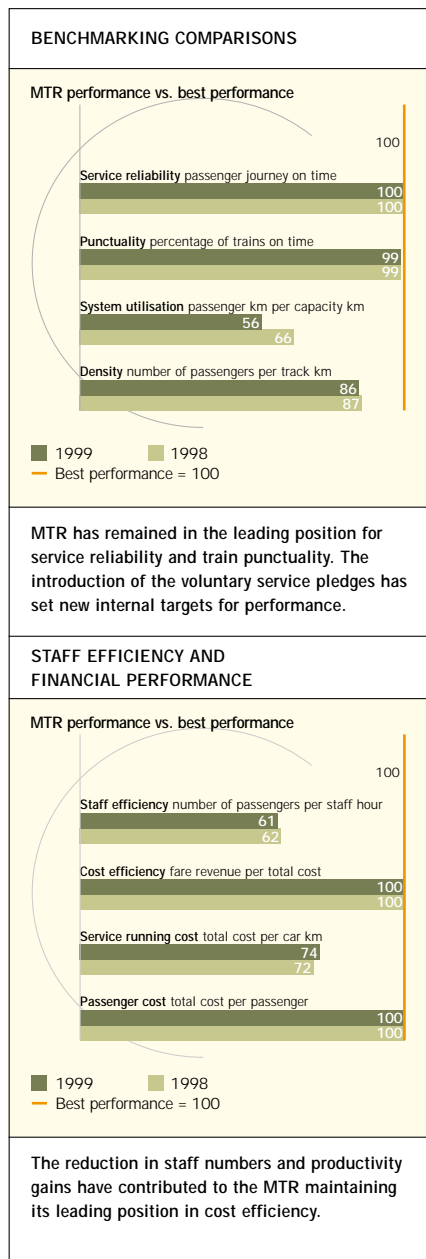
movements of all trains and has the capacity to cater for our planned future rail extensions. To further rationalise and optimise our resources, outsourcing of selected, principally non-core services such as Airport Express train ambassadors, ticket encoding services and some equipment maintenance have been undertaken where cost effective.

Controlled spending and asset enhancement

Over the last three years we have focused on an aggressive programme of prioritisation of asset maintenance and reliability improvement, resulting in substantial cost savings. With careful implementation of rail asset improvement projects and control on expenditure levels, we achieved in 2000 our best ever ratio of HK\$9.63 in maintenance cost per revenue car kilometre and at the same time improved the overall reliability of the asset.

Asset improvement projects constitute part of our annual capital expenditure programme and are subject to a value assessment process prior to approval, which compares costs to benefits accrued. Once approved, each project is subject to a rigorous cost and performance programme to ensure proper and timely implement-

ation. The asset improvement programme progressed on schedule during the year, focusing on extending the life of existing assets and creating value where identified. The train modernisation programme which effectively extends the useful life of rail cars by 10 years was 60% complete at year-end. Station improvements and modifications works continued on a priority basis to extend the life cycles of stations and



equipment and to create additional value for future inter-modal exchanges. The installation of platform screen doors at existing underground stations commenced in 2000 and will be completed in 2006. As each station is retrofitted with these doors, passengers will benefit from improved station air-conditioning and cost savings will accrue through reduced energy consumption. Passengers will also benefit from improved trackside safety.

Moving forward

The Company will continue to pursue further cost efficiencies whilst maintaining the high standards of service quality and the integrity of the system. As we move forward with this objective in mind next year, we will continue to outsource services where cost efficient, enhance railway asset utilisation through improved management programmes and application of advanced technologies, improve efficiency in logistics and supply and continue with the programme to extend the useful life of our rail assets. For our staff, we will continue to train our people and implement management systems which encourage adaptability in forming a new mindset to be more competitive, value conscious and productive.

To boost patronage in 2001, we will undertake a pilot scheme for inter-modal fare discounts, improve pedestrian access to our stations and strengthen the provision of feeder buses. In December 2000 we increased the frequency of our off-peak train service and provided more capacity during off-peak hours. We will continue to improve these services as patronage builds.

As a leader and innovator in Hong Kong's transport industry we will explore the use of better technologies and management programmes to improve the overall industry and we will continue our role in planning for better, more environmentally friendly transport services within Government's transport policy.

Octopus card extends customer services

The Company entered into a shareholders' agreement in 1994 with four other major public transport companies, Kowloon-Canton Railway Corporation, Citybus Limited, The Kowloon Motor Bus Company Limited and The Hong Kong and Yaumati Ferry Company Limited to develop and operate a smart card ticketing system, the Octopus, for transport services. A separate company, Creative Star Limited was established for this purpose. In April 2000, Creative Star Limited became a deposit-taking company (DTC) with some restrictions, which has enabled usage of the Octopus card to be extended to non-transport as well as transport applications. In January 2001, a new shareholders' agreement was signed amongst the shareholders with The Hong Kong and Yaumati Ferry Company Limited being replaced by New World First Bus Services Limited and New World First Ferry Services Limited. Under this agreement, the Company now holds 57.4% of Creative Star Limited and the non-profit-making restriction contained in the previous shareholders' agreement has been removed.

About 7.1 million Octopus cards were in circulation by the year-end, with over 4.8 million card transactions comprising some HK\$35 million in deducted value being processed each

INTERNATIONAL PERFORMANCE COMPARISONS: THE GROUP OF TEN HEAVY METRO RAILWAYS

Metro System Network Data (1999)	MTR Lines*	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I
Journey in million	779	410	810	1,273	1,303	1,191	365	468	2,025	3,200
Car kilometres in million	94	128	429	320	510	203	89	76	237	609
Route length in km	74	153	392	178	471	205	115	49	172	262
Number of stations	43	168	246	154	425	295	65	46	129	142

Note: the other metros in the comparison are Berliner Verkehrs – Betriebe, London Underground Limited, New York City Transport Authority, Sistema de Transporte Colectivo, Regie Autonome de Transports Parisiens Metro, Regie Autonome de Transports Parisiens Regional Express Railway, Metroplitano de Sao Paulo, Teito Rapid Transit Authority, and Moscow Metro. The benchmarking agreement prohibits specifically identifying the data for each metro system.

*The Airport Express Line is excluded from metro benchmarking

The international benchmarking study has compared the 1999 performance of the Group of Ten Heavy Metro Railways in Europe, North and South America and Asia.

day. About HK\$12.7 billion in revenues were collected during 2000 from Octopus users, an increase of nearly 29% over 1999. Card usage was mainly for transport services with less than 1% of transactions related to retail purchasing. The size of the card base, combined with the DTC status, offers Creative Star Limited significant upside for expanding business services beyond transport.

During the year, Creative Star Limited launched an aggressive campaign to expand retail usage and by the year-end, Maxim's fast food outlets and cake shops, Starbucks coffee shops, 7-Eleven Convenience Stores, Minolta photocopiers, some leisure facilities and Swire Coca-Cola vending machines had all begun accepting the Octopus for payments. Agreements were also signed for the Octopus to be used in off-street car parks and trials commenced for Octopus-operated parking meters. The Octopus card is now used in over 30 establishments outside the core transport system. The Company also extended the use of the Octopus to serve as an identification card for access control in its depots and stations. This function was successfully extended to the Tsing Yi residential project, Tierra Verde.

In 2001 Creative Star Limited is targeting to penetrate into the remaining transport systems including Tramways, most of the remaining green mini-bus routes and on a trial basis, taxis. Both transport-related transactions and non-transport usage of Octopus cards are expected to increase significantly.

Non-fare businesses

Our rail consultancy services to railway operators, manufacturers and contractors expanded during the year, with new services provided for railway-specific project management and technical services. Clients range from mainland China to South East Asia and the United Kingdom, covering a broad range of services and expertise for which the Company is internationally recognised.

Campaigns to increase patronage and non-fare revenue as well as to promote the MTR brand name were actively undertaken during 2000. A creative approach to our non-fare businesses achieved an overall growth of 18% in the face of the continued slow retail sector. Advertising revenue increased

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by 38% due to the introduction of various new advertising formats. Kiosk rentals increased in line with the growth in the number of spaces available, with a strategy to establish a wider trade mix. Rental rates were maintained at levels similar to the previous year's. The Dickson Cyber Express, a large retail centre in

Kowloon Station, introduced a new interactive shopping experience for MTR stations. For our telecommunication services, overall revenues have increased due to the growth in mobile phone call revenue despite a significant drop in paging income.

As part of the drive to develop new advertising formats, the Company introduced the "e-instant bonus" initiative, which is an advertising media with a response mechanism allowing shopping, polling and provision of coupons for MTR system users. Trial use will commence in 2001 in selected stations. To encourage customer loyalty and bring fun to the stations, the Company launched a 10-week toy redemption scheme for the popular cartoon figure "Pokemon" with very successful participation from the public.

As an initiative to provide better customer service, the MTR website was re-launched in mid-2000. The contents have been enriched and updates are provided on a continuous basis to give on line customer information regarding train service and lifestyle entertainment. With the winning of the HKMA Millennium Award and as one of the finalists for the UUNET/HKET Best Business Website of 2000, the MTR website has been recognised for its creativity and comprehensiveness. To foster loyalty amongst MTR passengers, the MTR Club was introduced. Various promotions were launched to encourage members' patronage and over 100,000 members have been recruited so far.

The momentum for increased non-fare businesses will continue in 2001. Further programmes targeting our Octopus card users will be staged and more innovation in attracting advertising revenue is planned. Improvements are scheduled for our station retail facilities to match changing customer needs. Other initiatives through the website and MTR Club are under consideration and the Company is actively reviewing opportunities in the commercial utilisation of the fibre optic transmission network as well as 3G technologies.

**mass
transit**
16 customer
service pledges
have set
new standards
for our
778 million
passengers
in 2000



