

Executive management's report



Clean, safe, reliable and convenient – while travelling and upon arrival

Railway Operations

- Total fare revenues for MTR and Airport Express Lines combined fell by 4% to HK\$5,489 million, owing to impact of SARS
- Successful opening of Nam Cheong Station and new facilities in Mei Foo for interchange with West Rail
- Achieved all Operating Agreement and Customer Service Pledge targets

The outbreak of SARS posed one of the most serious short-term challenges the Company has ever faced in its railway operations. The relatively small decline in revenue for the year therefore testifies both to the strength of the subsequent recovery and of MTR's ability to manage its operations effectively during a difficult period.

Patronage

Sustaining patronage and revenues was a major task during the year. During the peak months of SARS, ridership fell by up to 25% as economic and social interaction in Hong Kong became severely curtailed, while throughout the year, MTR continued to face stiff competition from buses. Balanced against this, passenger numbers recovered quickly during the second half of the year and the network benefited from the full year contribution of the Tseung Kwan O Line, which opened in August 2002.

For the year, the MTR Lines recorded total passenger volume of 770 million, against 777 million in 2002. This represents a 24.3% share of the total franchised public transport market, and a good increase from the 23.5% share in 2002. Our patronage reached record highs on both Christmas Eve and Christmas Day of over 3.22 million and 2.02 million



respectively in 2003. Within the total market share of 24.3%, the Company has increased its share of cross-harbour traffic to 58.7%. Fare revenues from the MTR Lines fell marginally to HK\$5,064 million from HK\$5,167 million.

On the Airport Express Line (AEL), passenger volume declined by a more significant 19% to 6.8 million. The average fare also dropped, from HK\$65.43 in 2002 to HK\$62.07 in 2003. Total fare revenues declined by 23% to HK\$425 million. Moreover, the Airport Express Line suffered a drop in its market share to 23% from 25% in 2002.

Service promotion

In keeping with MTR's increased emphasis on revenues from sources beyond Hong Kong, we continue to promote the MTR network overseas, particularly in China, establishing distribution channels to sell MTR and Airport Express tickets in places which are among the main sources of inbound tourism to Hong Kong.

To promote AEL patronage, we offered Asia Miles upon the purchase of a "2 Trips" Airport Express Tickets. This encourages more usage from frequent travellers, and raises brand awareness among international travellers.

In Hong Kong, a number of fare promotions were launched, with the aim of increasing passenger volumes and overall fare revenues. In particular, we sought to speed up the recovery of patronage after SARS by reminding the public of the convenience, reliability, safety and cleanliness of the MTR network.

Enhancements to station environments extend to new, more versatile ticketing machines



MTR fare campaigns included "Ride 10 Get 1 Free", "Ride 5 Get Cash Coupons" and "\$2 Holiday Ride" for children and the elderly, while AEL provided free tickets for children, half fares for students and the elderly, discounts for passengers travelling in groups, and "Ride 7 Get 1 Free" tickets for airport workers during selected periods.

Fare promotions were supplemented by wider brand building and loyalty programmes. These included the successful re-launch of the MTR Club, which by year end had more than 240,000 members, a new thematic campaign which successfully raised our brand awareness among the younger market segments and the "Unsung Heroes" TV campaign that focused on service commitment. For AEL, a thematic campaign for the fifth anniversary based on the popular Snoopy character succeeded in raising the brand equity of Airport Express.

Service performance

Excellence in service delivery again underpinned the ability of MTR to maintain its attraction to the travelling public and the Company maintained its very high standards of reliability, safety, comfort and customer satisfaction during the year. The smooth operation of the Tseung Kwan O Line, following improvements to the signalling system and certain modifications to the rolling stock, resulted in high levels of customer satisfaction for this service.

In the context of 2003, service excellence necessarily included the many initiatives undertaken with respect to SARS. These involved a wide range of precautionary measures such as distribution of facemasks, increasing ventilation at stations and on trains, as well as additional cleaning of stations. The Company also put in place contingency plans for events such as infection of employees. The success of these measures and the speed of their implementation prevented any cases of transmission in the network, reinforcing MTR's reputation with its customers.

In 2002, the train service performance of MTR Lines had experienced a modest decline primarily due to the introduction of new line equipment for the Tseung Kwan O

Line. Our sustained effort to eliminate these problems in 2003 resulted in the Company once again achieving the very highest levels of service, as measured by both the service performance requirements specified by the Government under the Operating Agreement, and the more stringent Customer Service Pledges established by MTR itself. A high level of safety in railway operations has been maintained and the rate of passenger accidents has been on an improving trend for four consecutive years.

The reliability of the automatic fare collection equipment and tickets saw further improvement, while the reliability of railway and other station equipment was maintained at a high standard, ensuring punctuality and convenience for passengers. For the year, MTR passenger journeys on time were 99.9%. Where there was major service disruption, our staff responded swiftly to assist passengers and ensure a rapid resumption of service. Escalator reliability was 99.9%, with the average machine out of service for about half-an-hour per month.

Our success in maintaining such exceptional levels of service quality whilst keeping costs under control is a remarkable achievement, directly contributing to the high levels of customer satisfaction again recorded this year by our regular survey. In 2003, the Service Quality Index for the MTR and AEL Lines stood at 69 and 81 respectively on a 100-point scale, indicating that our services were held in high regard by customers. MTR's strengths in the areas of safety, service quality, passenger cost and profitability have once again been confirmed by the results of benchmarking with nine other urban railways in the Community of Metros (CoMET) benchmarking. MTR was also the winner for the fifth year of the Customer Service Award in the transportation category organised by "Next Magazine" of Hong Kong.

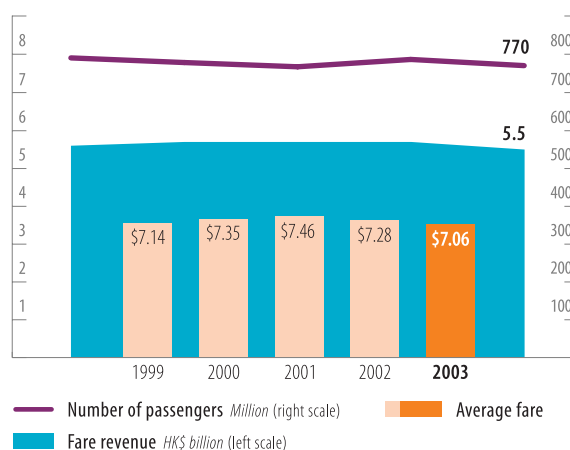
Service improvements

Despite the difficult environment, MTR continued to make progress on improving its infrastructure and services.

The single largest network enhancement during the year was the completion of four-tracking of the Airport Railway

Passengers and fares

Owing to the impact of SARS, passenger volumes declined, which together with lower average fare caused fare revenues to decline marginally.



Fare trend

MTR continued to ensure its fares remained affordable and competitive.

