2000 was an historic year for MTR. Its shares were listed on The Stock Exchange of Hong Kong and it went from having the Government of the Hong Kong SAR as its sole shareholder to more than 600,000 shareholders immediately after listing. In addition, significant achievements were made in many areas of our business and the Company continues to perform satisfactorily amidst a continuing competitive transport environment in Hong Kong.

**New regulatory framework established**

A key element in the privatisation process was the enactment in March 2000 of the new MTR Ordinance which came into effect on 30 June 2000. On that day, the entire property, rights and liabilities of Mass Transit Railway Corporation were vested in MTR Corporation Limited, with the effect that MTR Corporation Limited became the successor to Mass Transit Railway Corporation and is to be treated in law as if it were the same entity. Also on 30 June 2000, the Company entered into the Operating Agreement with Government which sets out provisions for the regulation and operation of the Mass Transit Railway for the initial franchise term of 50 years.

Of critical importance to our business, the new regulatory framework has retained and reinforced the key principles of operating the railway on a commercial basis. Key provisions include preserving the Company’s autonomy to set its own fares and confirming the need to achieve a commercial rate of return on investments in new railway projects. In addition, a number of undertakings and statements of intention were made by Government in the initial public offering prospectus dated 25 September 2000, including that Government will hold not less than 50% of the ordinary share capital of the Company for at least 20 years from the date of listing and that Government does not intend to use its rights as a shareholder to intervene in the commercial decisions of the Company.

**Successful initial public offering**

In September 2000, Government offered 1,000 million shares of the Company for sale to institutional and retail investors through a global offering. The offering was highly successful, attracting HK$164 billion of strong institutional and retail demand from both Hong Kong and overseas for a HK$9.4 billion offering. Due to the high level of demand, the over-allotment option was exercised in full by the global coordinators, as a result of which a total of 1,150 million shares were sold and Government’s shareholding interest was reduced to 77%.

As well as being Hong Kong’s first privatisation share offering, this was the first time that share applications could be made by investors through the Internet, thus being termed
Hong Kong's first e-IPO. Immediately after listing, the Company had 604,447 members on its shareholder register.

Trading on The Stock Exchange of Hong Kong commenced on 5 October 2000 and since then, the share price has maintained a significant premium above the listing price, closing the year at HK$13.65 per share as compared to the listing price of HK$9.38 per share.

Railway operations

The provision of a safe, reliable and efficient service is at the core of our operations. In 2000, a very high level of operating standards was achieved in terms of reliability, safety and efficiency, representing a marked improvement over the previous year. International benchmarking studies continue to confirm the Company's performance standards as being amongst the best in the world.

During 2000, ridership on the MTR Lines continued to suffer from intense competition from buses. In the early part of the year, declines of up to 3% were experienced in our average daily ridership as compared to the same period last year. However, this trend improved in the second half and for the year as a whole, total patronage on the MTR Lines was 767 million as compared to 779 million in the previous year. Our market share declined slightly from 25.2% to 24.1% of all franchised public transport boardings and from 60.3% to 57.9% of all cross-harbour movements. Total fare revenue on the MTR Lines was HK$5,166 million, a slight 0.5% drop from the previous year's figure of HK$5,194 million.

Total fare revenue on the Airport Express Line increased by 23% to HK$549 million in 2000, primarily as a result of the average fare per passenger increasing from HK$42.8 to HK$53.1. Passenger numbers and market share fell slightly on a year-on-year basis after we reduced the 30% introductory promotional fare discount to 10% in July 2000.

With inflation remaining negative in Hong Kong throughout the year, we decided not to impose a general fare increase on the MTR Lines in 2000 for the third consecutive year. However, we commenced charging an additional 10 cents per ride from July 2000 in order to support the platform screen doors project.

Over the years, the Company has maintained a consistent capital investment programme to preserve and enhance the standards of the railway system. Our train modernisation programme is now 60% complete and our station improvement works are well underway. The installation of platform screen doors commenced during the year and will be completed in 2006. Our high standards in service and safety management have been recognised through the award of ISO 9001:2000 by the Hong Kong Quality Assurance Agency, making us the first Hong Kong company to receive this new international standard.

Railway construction

Excellent progress was achieved during the year on the construction of the Tseung Kwan O Extension. This project is now on track for completion in late 2002. Meanwhile, the Quarry Bay Congestion Relief Works will be completed and become operational in late 2001 to help meet the increasing capacity loads on the Island and Kwan Tong lines and in future the Tseung Kwan O Line.
We have continued to benefit from lower contract prices following the economic downturn in Asia and we have derived positive results from our partnering initiatives with contractors which have led to further cost savings. As a result, we were able to reduce the Tseung Kwan O Extension project budget further during the year to HK$21.0 billion, as compared to the original budget of HK$30.5 billion.

During the year, Government published its Railway Development Strategy 2000 (RDS-2000) which affirms that railways will form the backbone of the future transport system in Hong Kong. It is recognised that railways are capable of providing the substantial passenger capacity which will be required to serve the expected significant increase in Hong Kong’s population in an environmentally friendly manner.

RDS-2000 has identified a number of new railway lines for priority development. Of these, the North Island Line and the West Island Line are natural extensions of the MTR system and will be awarded to the Company for construction and operation. Lines which are not regarded as natural extensions will be offered for tender on a level playing field basis. Of these, the most important to us is the proposed Shatin to Central Link incorporating a fourth railway crossing across Hong Kong harbour and we would expect to put forward a strong proposal to build and operate this line during the tender process in 2001.

Property
With the award of the Kowloon Station Packages Five, Six and Seven to a company in the Sun Hung Kai Properties Group during the year, all of the development packages associated with the Airport Railway, amounting to some 3.5 million square metres of development, have now been awarded. Progress continued to be made in the construction and pre-sales of a number of the awarded Airport Railway development packages, as reflected in the recognition of HK$3,376 million of profits from the deferred income account in respect of the developments at Kowloon, Olympic and Tung Chung stations.

We are planning for around 2.3 million square metres of property development in conjunction with the Tseung Kwan O Extension, of which the largest area will be the environmentally friendly designed “Dream City” at the future depot site to house 58,000 residents. We have designed the development packages so that the investment cost of each package will be affordable to a wider range of developers. Tendering of

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<th>OPERATING PROFIT BEFORE DEPRECIATION</th>
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<td>In HK$ billion</td>
<td>In HK$ billion</td>
<td>In HK$ million</td>
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<td>Turnover</td>
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The Company has maintained a trend of increasing turnover and operating profits.

Due to the increasingly competitive public transport market and slow economic recovery, patronage for the MTR decreased slightly in 2000.

With the implementation of new ideas and campaigns the Company increased its station commercial and other revenue by over 20%.
the first of these packages is expected in 2001.

Our shopping centres continued to perform well, with occupancy levels at close to 100% for Telford Plaza and Maritime Square. Total rental and management income rose by 9.7% to HK$867 million for 2000.

Other businesses
Our advertising business performed well during the year, with revenue increasing by 38% to HK$504 million as a result of the increased utilisation of advertising opportunities within the MTR system.

Usage of the Octopus smart card has expanded, with 7.1 million cards now in issue. Besides its core transport usage on the railways, buses, ferries and other transport modes, usage has been expanded to a wide range of non-transport outlets since our subsidiary Creative Star Limited became authorised as a deposit-taking company in April 2000. Agreement was reached in January 2001 amongst the shareholders of Creative Star Limited that this company will no longer have a non-profit-making objective.

Revenue from other businesses such as telecommunications services and kiosk rentals has grown with the increase in economic activities. Our rail consultancy services have also expanded in scope, servicing clients across Asia and Europe.

Human resources
Our workforce stood at 7,332 at the year-end, down 2.7% from last year following the voluntary separation scheme undertaken from late 1999 onwards. With our successful redeployment and re-training programme, we have significantly reduced our staff costs and improved productivity whilst maintaining our high standards of service and operations. Our achievement in staff productivity was recognised when the company received the Hong Kong Productivity Council's award for service in 2000.

In conjunction with the initial public offering, the Company adopted a share option scheme for the 769 directors and managers and free shares were granted to all general staff of the Company in order to align their interests more closely with our shareholders. 93% of our staff became shareholders of the Company at the time of the initial public offering.

Finance
The Company continued to have significant funding needs with the construction of the Tseung Kwan O Extension project and continuing investment in the MTR system. During the year, HK$12.8 billion of new financings were successfully arranged at attractive terms, the most notable of which was the highly acclaimed US$600 million Global Bond issue in November 2000. As at the year-end, the Company had total loans outstanding of HK$27.2 billion and HK$13.8 billion in undrawn committed facilities which will be sufficient to cover its anticipated funding needs up to the end of 2001.

The strategy that we have pursued over many years of prudent financial management, developing long-term relationships with investors and high standards of disclosure was rewarded with the success of the initial public offering and the Global Bond issue, as recognised by the Company being named IFR Asia’s Borrower of the Year, Asiamoney’s Issuer of the Year and Euroweek’s Most Impressive Borrower of the Year amongst its many financing awards in 2000.

2000 results
Our operating profit from railway and related operations before depreciation grew by 12% to HK$3,912 million as a result of the increased revenue principally from the Airport Express Line, station advertising and property ownership and management together with the reduction of total operating costs by 2.6% from the previous year.

Together with the profit from property developments of HK$3,376 million, the operating profit before depreciation was HK$7,288 million, an increase of 32% over last year.

Net of depreciation and interest, the profit for the year was HK$4,055 million, a record level for the Company and comfortably exceeding the initial public offering forecast of HK$3,600 million.
by 2010 four new rail lines will add 24 kilometres of route length, two depots, 13 stations, 4 interchange stations and 284 rail cars to the system