



## Summary financial report 2003

This Summary Financial Report 2003 only gives a summary of the information and particulars of MTR's 2003 Annual Report from which this Summary Financial Report is derived. Both documents are available (in both English and Chinese versions) in electronic form on the Company's website at [www.mtr.com.hk](http://www.mtr.com.hk)

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If you have already chosen to rely on the versions of the summary financial reports and annual reports posted on the Company's website or have difficulty in having access to those documents, you will, promptly upon written request, be sent those documents in printed form free of charge. Please send your request to the Company's share registrar, Computershare Hong Kong Investor Services Limited.

<b>Financial highlights</b> <i>in HK\$ million</i>	<b>2003</b>	2002	% Increase/(Decrease)
Revenue			
– Fare	<b>5,489</b>	5,720	(4.0)
– Non-fare	<b>2,105</b>	1,966	7.1
Operating profit from railway and related operations before depreciation	<b>3,747</b>	4,014	(6.7)
Profit on property developments	<b>5,369</b>	3,755	43.0
Operating profit before depreciation	<b>9,116</b>	7,769	17.3
Profit attributable to shareholders	<b>4,450</b>	3,579*	24.3
Total assets	<b>102,366</b>	101,119*	1.2
Loans, obligations under finance leases and bank overdrafts	<b>32,025</b>	33,508	(4.4)
Shareholders' funds	<b>57,292</b>	53,574*	6.9
<b>Financial ratios</b> <i>in %</i>			
Operating margin	<b>49.3</b>	52.2	(2.9)% pt.
Gross debt-to-equity ratio	<b>55.9</b>	62.5*	(6.6)% pt.
Return on average shareholders' funds	<b>8.0</b>	6.7*	1.3% pt.
Interest cover <i>in times</i>	<b>5.6</b>	4.5	24.4
<b>Share information</b>			
Basic earnings per share <i>in HK\$</i>	<b>0.85</b>	0.70*	21.4
Dividend per share <i>in HK\$</i>	<b>0.42</b>	0.42	–
Share price at 31 December <i>in HK\$</i>	<b>10.25</b>	8.25	24.2
Market capitalisation at 31 December <i>in HK\$ million</i>	<b>54,209</b>	42,560	27.4
<b>Operations highlights</b>			
Total passenger boardings			
– MTR Lines <i>in millions</i>	<b>770.4</b>	777.2	(0.9)
– Airport Express Line <i>in thousands</i>	<b>6,849</b>	8,457	(19.0)
Average number of passengers <i>in thousands</i>			
– MTR Lines <i>weekday</i>	<b>2,240</b>	2,261	(0.9)
– Airport Express Line <i>daily</i>	<b>18.7</b>	23.2	(19.4)
Fare revenue per passenger <i>in HK\$</i>			
– MTR Lines	<b>6.57</b>	6.65	(1.2)
– Airport Express Line	<b>62.07</b>	65.43	(5.1)
Proportion of franchised public transport boardings <i>in %</i>			
– All movements	<b>24.3</b>	23.5	0.8% pt.
– Cross-harbour movements	<b>58.7</b>	58.2	0.5% pt.
Proportion of transport boardings travelling to/from the airport <i>in %</i>			
– Airport Express Line	<b>23</b>	25	(2)% pt.

\* Restated to include retrospective adjustments on deferred income tax provided in accordance with a revised accounting standard.

# Chairman's letter



Dear Stakeholders,

I have the pleasure of presenting to you the 2003 results of MTR Corporation Limited (MTR).

Firstly, I would like to welcome Mr. C K Chow as the Company's Chief Executive Officer. C K brings with him extensive management experience in publicly-listed, multinational companies and with his roots in Hong Kong is the ideal person to lead MTR forward, as the Company enters a new era of development both locally and abroad. I would also like to thank again Mr. Jack So for his leadership and contribution over his eight years as MTR's Chairman and Chief Executive, during which time MTR had gone from strength to strength. Thanks is also due to Mr. Philip Gaffney for his excellent work as Acting CEO following Jack's departure and prior to C K's appointment, which ensured a smooth management transition.

Despite the challenges and difficulties in 2003, MTR achieved good results mainly due to significant property development profits. Net profits for the year was HK\$4,450 million, an increase of 24.3% over 2002 (as adjusted for the revised accounting standard on deferred income tax).

Correspondingly, earnings per share increased by 21.4% to HK\$0.85 per share. The Board declared a final dividend of HK\$0.28 per share which when combined with the interim dividend of HK\$0.14 per share resulted in total dividends for 2003 of HK\$0.42.

The outbreak of Severe Acute Respiratory Syndrome (SARS) was the single most difficult challenge MTR faced in 2003.

It put a lot of strain on our system but at the end, through the hard work and dedication of our staff, especially those at the front line, we ensured the health and safety of our passengers, customers and tenants. I must therefore commend our staff for the courage and professionalism that they exhibited during this crisis.

During the year, the issue of fare discounts and fare setting mechanism continued to attract much public discussion. From its inception, fare autonomy has been the cornerstone of MTR's business model and success. In assessing fares we must take into consideration all our stakeholders, including shareholders and debt holders who require reasonable risk adjusted returns from their investments. However, we are also sensitive to the needs of the travelling public and recognise that the Company's ultimate success depends on its ability to deliver quality service in a competitive market. We are mindful of the economic conditions and deflationary environment in Hong Kong and have introduced a number of initiatives to offer relief to our passengers. These initiatives include the "Ride 10 Get 1 Free" scheme which on average benefits 450,000 passengers, every week.

It is important to point out that having completed the Airport Railway and the Tseung Kwan O Line in the past few years the Company has seen its certain costs such as interest and depreciation charges increase significantly by about 220% between 1997 and 2003. With the two additional lines, in this same 6 years period, the number of car kilometres run has increased by 52.0% to 128 million kilometres but patronage has reduced by 4.3% due to the economic slowdown in Hong Kong. As a result, fare box revenues are insufficient to meet operating expenses of the rail network. It has to be augmented by non-fare revenues, property rental and property development profits.

During the year, there have also been debates about our property development business. Our business model of "rail plus property development" has served the Company and Hong Kong well for over the past twenty five years, and has given Hong Kong a world class urban railway system without costing Government or taxpayers anything. This is a record envied around the world.

In 2002, amid excess supply of flats in the market, we have decided in line with Government policy to refrain from tendering out any property development packages in 2003. With the recent recovery in the property market, we are in the process of planning tenders for the packages along the Tseung Kwan O Line in the fourth quarter of 2004. However, it is unlikely that any new flats will be available from these yet to be tendered packages until 2007.

A very exciting development for MTR is the opportunity to invest outside of Hong Kong in areas where the Company has significant knowledge and competence. I am pleased that our first potential external investment is the Shenzhen Line 4 project, which when completed will provide a critical north-south corridor for one of Asia's most dynamic municipalities and set new standards for comprehensive

community development in the Mainland. There are other projects which we are discussing in the Mainland as well as in Europe.

We were pleased to note Government's decision to invite MTR and Kowloon-Canton Railway Corporation (KCRC) to commence discussions on the possible merger between MTR and KCRC. We will work with all parties concerned to structure and negotiate this complex transaction, such that the outcome will yield sustainable benefits to Hong Kong's travelling public, rail industry employees and importantly, our shareholders.

Finally, I would like to thank my fellow directors, management and all staff for their hard work and dedication during 2003. 2004 marks the 25th anniversary of the commencement of MTR's rail services in Hong Kong and also the beginning of an exciting new era of overseas expansion and investments, as well as a possible merger with KCRC. I know that I can count on my colleagues' continued support in this exciting new era.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*  
Hong Kong, 2 March 2004

# CEO's review of operations and outlook



Dear Stakeholders,

This is my first opportunity to write to you as Chief Executive Officer of MTR since taking up my appointment on 1 December 2003. I am honoured to have the opportunity to join and to lead this well regarded Company which provides essential services to so many in Hong Kong.

2003 was a difficult year for Hong Kong and MTR, with the outbreak of SARS, a continued sluggish economic environment and depressed property market for most of the year. Despite these, the Company performed well both operationally and financially, testifying to the effectiveness of our business model and the dedication of our people. I am confident that we will build on these achievements in 2004, a year which also marks 25 years of MTR operations in Hong Kong.

The strong profits achieved by MTR in 2003 were attributable to significant property development incomes. Although revenue declined slightly by 1.2% to HK\$7,594 million, mainly due to the one-off impact of SARS on rail patronage and our other commercial activities, effective cost containment and the recognition of HK\$5,369 million in property development profits contributed to net profits increasing by 24.3% to HK\$4,450 million. Correspondingly, earnings per share increased by 21.4% to HK\$0.85 per share. The Board has proposed a final dividend of HK\$0.28 per share which, when combined with the 2003 interim dividend of HK\$0.14 per share, will result in total dividends of HK\$0.42 per share, which is the same as in 2002. As in previous years, shareholders will be given an option to receive dividends either in cash or scrip. At the time of our stock market listing, the Government had undertaken to elect to receive its entitlement in scrip form in such amount as to ensure that a maximum of 50% of the total dividend paid by the Company will be in cash.

The undertaking was initially for a period extending to MTR's financial year ending 31 December 2003 and hence will apply to the 2003 final dividend.

We are pleased to report that Government has agreed to extend their scrip dividend arrangement, on the same basis as their previous arrangement for a further period up to and including dividends to be declared for the Company's financial year ending 31 December 2006.

## Overview of business performance

Without doubt, the outbreak of SARS that began in March and lasted into the middle of 2003 was the single most significant event affecting MTR last year. It impacted all of our businesses, severely affecting patronage, curtailing property activity, reducing non-fare revenues and even constraining our ability to pursue consultancy business overseas. Fortunately, our swift and effective response ensured the safety of our customers and our employees, as well as mitigating most of its negative effect on profitability. The post-SARS recovery in the second half of the year has also been strong and rapid. By the end of 2003, our overall rail patronage and non-fare revenues had returned to the normal levels.

The impact of SARS and competition from buses contributed to a modest 4.0% decline in revenues from railway operations to HK\$5,489 million, as total patronage of the MTR Lines declined by 0.9% to 770 million and that on the Airport Express (AEL), which celebrated its 5th anniversary in 2003, fell by a more considerable 19.0% to 6.8 million owing to the negative impact on air travel in Asia. In the last quarter of 2003, total patronage on the MTR Lines has recovered to a more normal level of 208.9 million as compared to 207.1 million in the last quarter of 2002, whilst that on the AEL has improved to 2.02 million, still slightly below the 2.18 million for the same period in 2002. AEL's less rapid recovery is mainly due to the reduction of travellers from the U.S. and Europe.

Recognising the difficult economic environment in Hong Kong, MTR continued with the "Ride 10 Get 1 Free" promotion in 2003 which, on average, benefits 450,000 passengers a week. In addition, a number of other promotion programmes were instigated, particularly after SARS, such as "Ride 5 Get Cash Coupons" and "\$2 for Children & Seniors travelling on MTR". Various initiatives to improve our connectivity with other modes of transport such as KCRC's network and minibuses were introduced, most recently through two new interchanges with KCRC's newly opened West Rail.

MTR is committed to providing high standards of service to our customers. In 2003, our customer service performance surpassed both the Government's requirements under the Operating Agreement and the Company's own more stringent Customer Service Pledges. Further progress was made on improving station environment, including platform screen doors which have now been installed at 14 underground stations. The platform screen door offers additional safety to our customers as well as providing better temperature control in our platforms and is welcome by the public. The first full year of operation of the Tseung Kwan O Line produced good operating results thereby helping to improve patronage of our system. With the opening of the Tseung Kwan O Line as well as the other patronage enhancing initiatives, MTR's share of the franchised public transport market improved to 24.3% in 2003, after several years of decline.

Good progress was made on new projects in 2003. Construction of the Penny's Bay Rail Link to the future Disney Theme Park is progressing extremely well for completion in the second half of 2005. A formal project agreement for the Tung Chung Cable Car, which provides a world class tourist attraction in Lantau Island combining a scenic cable car ride and a cultural theme village, was signed with Government in November 2003. Work has already commenced with an anticipated completion date in early 2006. MTR will invest HK\$950 million in this project and is extending our brand and capabilities, built up as a high quality transport service provider, into the tourism sector serving local visitors and those from abroad. Earlier in January 2003, the Government had requested the Company to proceed with planning for the South Island Line and the West Island Line, which will provide rail service for the first time to the residents in the western and the southern districts of the Hong Kong Island. We expect to make further submissions to Government on this project in the second quarter of 2004.

Our non-fare businesses have started to improve, post SARS, in the second half of 2003. Despite lower business volume for

the year as a whole, we continued to expand and enhance our advertising formats and offerings, particularly at trackside and in station concourse, including the introduction of the first trackside plasma TV screens. Our highly successful station renovation programme continued to add commercial floor space and kiosks in stations, improve the trade mix and enliven the retail environment. We continued to work with mobile operators to provide telecommunications infrastructure, in anticipation of 3rd generation mobile telephony (3G). Our fixed line bandwidth wholesale business, TraxComm, had secured a number of long-term revenue contracts which helped build a firm foundation for its further expansion. Our external consulting business also had a successful year, including winning a contract with Octopus Cards Ltd. to develop an e-ticketing system for the public transport system in the Netherlands. Currently, MTR consultants are working on projects in 25 cities in 14 countries around the world. Our subsidiary Octopus Cards Ltd. had a difficult first half due to the impact of SARS. However, card numbers continued to grow and recorded 10.4 million by year end with annual transaction value increasing by 1.4% to HK\$18.5 billion for the year as a whole. Non-transport usage of Octopus Cards expanded at an impressive rate of 42.6%.

2003 was a very successful year for our property development business as a number of major developments were completed. Total profit recorded was HK\$5,369 million, a significant increase of 43.0% when compared with 2002. These property development profits were derived from our receipt of the 18 floors in Two International Finance Centre (Two IFC), receipt and sale of residential units in the Sorrento development at Union Square as well as from deferred income relating mainly to Kowloon Package 4, The Harbourside, and Tung Chung Package 3, Caribbean Coast developments. Together with our joint venture developers, we launched residential apartments for sale in Tung Chung Station comprising Seaview Crescent Phase II and Caribbean Coast Phase II, and Residence Oasis in Hang Hau Station, all to enthusiastic response. As one of the largest land bank owners in Hong Kong, a stable and improving property market will work to the benefit of the Company. In response to the depressed property market caused by SARS and the generally over-supply of property in 2003, MTR did not tender out any site last year. The tendering process for Area 86 is likely to start towards the end of 2004 and the new residential units are likely to be completed from 2007 onward.

In property rental, despite SARS and a weak economy, our shopping centre leases were close to capacity, and substantial progress was made towards leasing of our 18 floors in Two IFC,

where close to 60% of available floor area was leased out at the end of 2003. Our property management business again continued to expand both in Hong Kong and overseas. In Hong Kong, new units were added to our portfolio from Coastal Skyline, Caribbean Coast, and Seaview Crescent Phase II at Tung Chung Station, and Sorrento Phase One at Union Square, bringing the total number of residential units managed by MTR to 46,915 from 42,074 in 2002. Total area of commercial and office space under property management at the end of 2003 has climbed to 558,796 square metres representing a 50% increase.

Despite the very challenging environment, MTR achieved strong financial results in 2003 mainly from significant property development contributions. While total fare revenues from the MTR Lines decreased by 2.0% to HK\$5,064 million, and those of AEL declined by 23.1% to HK\$425 million, this was partially offset by higher station commercial and other revenues which rose strongly by 14.1% to HK\$1,117 million, and marginally higher property management income. Total revenue was HK\$7,594 million, which represents a modest reduction of 1.2% from 2002.

Operating costs were effectively contained with gains in productivity. Total operating costs rose by a modest 4.8% to HK\$3,847 million despite a full year's operation of the new Tseung Kwan O Line and one-off charges relating to deficit on revaluation of our head office premises of HK\$69 million. Combined with reduced revenues, operating margin from railway and related operations before depreciation and interest was 49.3% compared to 52.2% in 2002. Property development profits increased significantly by 43.0% to HK\$5,369 million following receipt of the office and carpark spaces at Two IFC in July. Operating profit before depreciation therefore increased by 17.3% to HK\$9,116 million.

In accordance with Company policy, during the year, the Company conducted a periodic review of the estimated useful lives of our rail assets which resulted in a net reduction in annual depreciation charge. Depreciation charge in 2003 reduced slightly to HK\$2,402 million when compared with 2002. Interest charges increased by 36.8% to HK\$1,539 million due to the full year impact of interest charges on the Tseung Kwan O Line. Following the adoption of the revised accounting standard on income taxes from 1 January 2003, the Group recognised an amount of HK\$748 million mostly in respect of deferred income tax expense for the year as compared to HK\$634 million for 2002 (as restated for deferred income tax). The deferred income tax charges for 2003 also included an amount charged relating to the increase in Profits

Tax rate in 2003 from 16% to 17.5%. It should be noted that this deferred income tax charge is a non-cash item. Together with the Group's share of Octopus Card Ltd.'s earning of HK\$23 million, the profit attributable to shareholders was HK\$4,450 million or HK\$0.85 per share, being respectively 24.3% and 21.4% better than 2002 (as restated for deferred income tax).

During the year, the Group was successful in taking advantage of the strong liquidity and tight credit spreads in the bond and debt markets, and arranged a total of HK\$8.3 billion in new cost-effective financings, comprising HK\$5.2 billion in bank loans and HK\$3.1 billion in medium term notes, which helped extend financing coverage well into the third quarter of 2004. The Group's effective interest rate decreased from 5.4% in 2002 to 5.1% in 2003. The Company also completed our first US cross border leasing transaction on our AEL and some MTR Line trains in March 2003 which provided a substantial net present value financial benefit to be recognised over the life of the lease.

### Beyond Hong Kong

MTR has engaged in external consultancy activities since 1998. Through numerous consultancies we have developed an extensive knowledge base of railway construction and operation as well as property management in a number of countries. We are now taking the next step in our corporate development to leverage off our Hong Kong and international knowledge base to seek investments in rail and related areas abroad.

In January 2004, we entered into an agreement in-principle with the Shenzhen Municipal Government for the construction of Phase 2 of Line 4 of the proposed Shenzhen Metro System and the operation of the whole of Line 4 for a term of 30 years under a build-operate-transfer arrangement. The agreement also incorporates property development rights of 2.9 million square metres of commercial and residential property. MTR will be a 100% owner initially with a commitment to hold at least 51% equity interest during the duration of the project. The project is planned for completion by the end of 2008, and its estimated cost of RMB6 billion will be funded 40% by equity and 60% non-recourse project financing in RMB. The final agreement requires the approval of the Central Government in Beijing.

Besides the Shenzhen project, MTR has been in active discussions on rail project investments in other Mainland Chinese cities such as Beijing. Investment models in Mainland China will differ from city to city and from project to project and hence we would expect to see other models used which may be different from the Shenzhen "rail and property" model.



In all cases, MTR will adopt a prudent approach in evaluating these business opportunities.

Outside of China, the Company is exploring relatively small investments in light rail transit in the UK and Canada.

The Company is excited about the growth opportunities outside of Hong Kong but also recognises the associated risks. Hence investments will be made on a prudent basis with return requirements commensurate with risk and focusing only on those opportunities which will leverage off our substantial experience and expertise in Hong Kong as well as the invaluable lessons learned from our overseas consultancy business. However, Hong Kong will remain our home base and most important market.

### Outlook

In the more immediate future, performance will be driven by expansion of our existing core businesses. The Hong Kong economy has rebounded quickly in the last quarter of 2003 with reducing unemployment. This momentum has continued in the first two months of 2004 and has benefited MTR's businesses in rail operations, property rental and management. Barring unforeseen circumstances, we expect patronage in 2004 to improve over 2003 as the economy recovers and West Rail, and the future KCRC Ma On Shan Extension, feed more passengers into our system. The "Ride 10 Get 1 Free" promotion has been extended to 30 September 2004 and this, plus other promotion schemes, will provide financial motivations to our regular passengers and support to patronage growth. Work will continue to progress on the Penny's Bay Rail Link and the Tung Chung Cable Car projects and we aim to submit detailed proposals to the Government on the South Island Line in the second quarter of 2004.

The recovery of the Hong Kong economy will also benefit our station commercial and other businesses. Towards the end of 2003, we already saw positive momentum in our advertising business which should further strengthen in 2004. This is well illustrated by advertising revenues increasing by double digit in the fourth quarter of 2003 when compared to the fourth quarter of 2002. In 2004, we will roll out trackside mega posters and launch a new type of tunnel motion advertising with enhanced technology. Likewise, in our station commercial facilities rental business, 2004 would see the continuation of our station improvement programme where we expect to add an additional 2,200 square metres of retail space. In telecommunication, the Company began catering for 3G reception in January 2004 in 18 hot-spot stations whilst TraxComm continues to increase its wholesale customer base.

Our external consultancy business will continue in a focussed manner aiming at supporting and enhancing the Company's overseas investment strategy.

The Company recorded significant property development profits in 2003. This level of profit is not expected to repeat in the foreseeable future. In 2004 we would expect to receive our share of Phase I in the 82,750 square metres retail centre in Union Square at Kowloon Station amounting to about 61,000 square metres. This retail centre would require internal fit-out and decoration over the next two years. With good construction and pre-sale progress in our Airport Railway residential developments we would expect most developments to be completed, and hence the related deferred income, the balance of which stands at HK\$4,924 million as at 31 December 2003, to be mostly recognised, over the next three years. At Tseung Kwan O, pre-sale activity of Residence Oasis at the Hang Hau Station is progressing satisfactorily. Besides Residence Oasis, it is unlikely that other Tseung Kwan O developments would contribute to the Company's profitability until 2006. In our property tender activities, we expect to start tendering certain packages in Area 86 towards the end of 2004 such that new units could be delivered to the market by 2007.

For our property rental and management business, 2004 will see the first full year of contribution from Two IFC albeit a relatively minor one. Our four main shopping centres continue to enjoy close to full occupancy and we are already seeing a firming of rental rates which we expect to continue in 2004. In the next few years, the Company's portfolio will be increased by the Union Square shopping centre where we should see rental revenue beginning in 2007 as well as by a small shopping centre at Hang Hau where rental income should start in 2005.

### Possible merger between MTR and KCRC

The Government announced on 24 February 2004 that it has invited the Company and KCRC to commence discussions on the possible merger between the Company and KCRC. The Company welcomes this development but reiterates that the merger needs to be properly structured and implemented on acceptable terms. After the Government's announcement, the Company has started work on the merger and will report back to shareholders on progress at the appropriate time. The Company will work closely with the Government and KCRC to bring the matter to a close as expeditiously as possible, always with the interest of all its shareholders and stakeholders as a priority. The possible merger will be a connected transaction and therefore will require independent shareholders' approval.

Stakeholders should note that there can be no assurance at this time that a merger will be implemented.

### Our people

At 09:12 on 5 January 2004, we experienced an arson attack on one of our trains traveling from Tsim Sha Tsui to Admiralty. With the effective response of members of our staff and the calm reaction of passengers, the train was brought safely to its destination and evacuated within two minutes. It was fortunate that no one was physically injured in an incident that has the potential to do great damage. I would like to pay tribute to our people, those who were involved in this incident and many many others who have worked quietly and professionally everyday to serve the people of Hong Kong. They are the true heroes who in the past 25 years made MTR a world class organisation.

### Sustainability

While this report focuses largely on the financial and operational aspects of 2003, I would like to make mention of our wider contribution to society, which is covered fully in our separate Sustainability Report available on our corporate web-site. We firmly believe that a sustainable business is one that not only achieves acceptable returns for capital providers, but also contributes positively to employees, customers, the environment and the general public.

Corporate governance is an area of critical importance to us. At a time when capital providers are increasingly concerned about the way companies are governed, we are proud of our achievement in this area. In 2003, our 2002 Annual Report won the Silver Award under the General Category in the 2003 Best Annual Reports Competition organised by the Hong Kong Management Association, marking the fifteenth consecutive year since 1988 that we have been recognised by the Association. As a Securities and Exchange Commission reporting company, we have been, and will continue the process of reviewing our internal systems and practices and implementing new requirements under the U.S. Sarbanes-Oxley Act 2002 in line with applicable compliance dates.

Regarding the environment and the community, MTR has calculated its Green House Gas emissions as a first step in developing a strategy to deal with the challenge of carbon emissions, and expanded stakeholder engagement with the Sustainability Advisory Board in support of the Tung Chung Cable Car project. We have maintained our presence in the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index and taken an active role internationally as a founding

signatory of the UITP Charter for Sustainable Development and regionally as a Stakeholder Organisation for the Global Reporting Initiative, an independent, multi-stakeholder and international organisation with a mission to provide best practice guidance for preparation of sustainability reports.

### 2004 Objectives

By way of conclusion, the Company's objectives for 2004 are as follows:

- Maintain tight cost control and further improve efficiency
- Raise patronage and continue to enhance service standards
- Deliver our projects in Hong Kong on time and within budget
- Achieve further progress on the South Island Line project
- Continue to enhance revenues from our non-fare businesses as well as our property rental and management businesses
- Complete further sales of property developments and continue plans for tendering the remaining property development packages along the Tseung Kwan O Line
- Work towards a final agreement on the Shenzhen project and develop other overseas investment opportunities
- Work closely with Government and KCRC to structure and negotiate the merger between KCRC and the Company

Although I have been with MTR for only three months, I have been truly impressed by the energy, dedication and expertise at all levels of the Company and I feel confident that we will achieve all these objectives.

Finally, I will reiterate my Chairman's thanks to all MTR staff, management and directors, as well as customers, shareholders and business partners, for their continued support.



C K Chow, *Chief Executive Officer*  
Hong Kong, 2 March 2004

# Executive management's report

## Railway Operations

SARS posed serious short-term challenges to the railway operations, but the small decline in revenue testifies to the subsequent recovery and MTR's effective operations management. Total fare revenues fell by 4% to HK\$5,489 million.

### Patronage

Patronage fell by up to 25% during the SARS peak but recovered later in the year, helped by traffic on the new Tseung Kwan O Line.

MTR Lines recorded total passenger volume of 770 million, against 777 million in 2002, a 24.3% share of the total franchised public transport market, and a good increase from 2002. This included an increased share of cross-harbour traffic to 58.7%. Fare revenues fell slightly to HK\$5,064 million from HK\$5,167 million.

Airport Express Line (AEL) patronage declined 19% to 6.8 million. Average fares also fell, from HK\$65.43 in 2002 to HK\$62.07 with fare revenues dropping 23% to HK\$425 million. The AEL's market share fell to 23% from 25%.

### Service promotion

Distribution channels were established and major marketing campaigns were launched to promote MTR overseas especially in China, and a partnering arrangement was entered into with Asia Miles to raise brand awareness among international travellers and create more cross-selling opportunities.

Fare promotions including the "Ride 10 Get 1 Free" offer and AEL's free tickets for children were launched to boost passenger volumes and overall fare revenues. These were supplemented by wider branding and loyalty programmes, including the relaunch of the MTR Club, new thematic campaign aimed at the youth market and the "Unsung Heroes" TV campaign.

### Service performance

The Company maintained very high standards of reliability, safety, comfort and customer satisfaction during the year.

SARS-related initiatives, such as the distribution of face masks, increasing ventilation at stations and on trains, as well as additional cleaning of stations were successful in preventing any cases of transmission in the network. Contingency plans were also in place for events such as infection of employees.

Better performance of the Tseung Kwan O Line meant that overall performance levels improved dramatically, as measured by the service performance requirements under the Operating Agreement with the Government and our more stringent Customer Service Pledges. The reliability of automatic ticketing machines improved, and services were highly punctual. MTR passenger journeys on time were 99.9% and escalator reliability was 99.9%.

Maintaining quality services while being able to keep costs down contributed to high customer satisfaction levels recorded by our 2003 Service Quality Index for the MTR Lines and AEL with ratings of 69 and 81 respectively out of 100. We again scored well in the Community of

Metros (CoMET) benchmarking report and won for the fifth time the Customer Service Award in the transportation category organised by "Next Magazine".

### Service improvements

The largest network enhancement was the completion of four-tracking of the Airport Railway between Lai King and Olympic stations, as well as the new Nam Cheong Station on the Tung Chung Line (TCL). Four-tracking allows AEL and TCL trains to operate on separate tracks for 4.5 kilometres and its completion contributed to the successful opening of the interchanges with KCRC's West Rail at Nam Cheong and Mei Foo stations. During the year, TCL trains were converted from 7-car to 8-car formation, resulting in a 14% increase in capacity.

In 2003 we extended inter-modal fare discounts to travellers transferring to MTR from feeder buses on four New Lantau Bus routes in Tung Chung and nine Green Minibus routes in Tseung Kwan O, Kwun Tong and Causeway Bay.

The scheme to modernise stations resulted in new underground walkway and escalators in Mong Kok Station, a new entrance at Kowloon Tong Station, as well as improvements to Tsim Sha Tsui and Mei Foo stations.

Platform screen doors were installed at 36 platforms in 14 stations. During installation, we took great care to ensure not only timely completion but continued reliability of the train service.

We began service trials in May 2003 of optimising air circulation between the platform and tunnel at selected stations with retrofitted platform screen doors by re-setting the tunnel cooling supply temperatures, and the trials resulted in considerable energy cost savings.

### Productivity increases

Productivity improved further from new designs, technologies and operational processes as well as the continuing hiring freeze and increased outsourcing.

Automatic train turnarounds at Tsuen Wan, Sheung Wan, North Point and Tiu Keng Leng stations has reduced turnaround times and manpower requirements. Work progressed on developing a fully automated operation and a group station control concept, which will allow the Penny's Bay Rail Link to operate more efficiently.

Full outsourcing of infrastructure maintenance of the Tseung Kwan O Line, including signalling, trackwork and power distribution, as well as trackside auxiliary equipment, was implemented, in line with the policy of partnering with contractors and outsourcing maintenance and operations activities where cost savings can be made without compromising quality or safety.

We continued to minimise the life-cycle-cost of our assets, including converting Urban Line trains for the Penny's Bay Rail Link, removing the need to buy new trains for that extension.

# Other Businesses

Revenue from other businesses increased by 14% to HK\$1,117 million despite the negative impact of SARS.

## Advertising

Advertising in Hong Kong was severely affected by SARS with revenues falling by 3% to HK\$386 million. Nonetheless, we continued to introduce new products such as trackside plasmas and revamp existing offerings, for example enlarging concourse and escalator crown panels. We also increased direct marketing to advertisers and advertising agencies. Internet access centres with advertising sponsorship were opened in two stations.

## Telecommunications

Competitive pricing by mobile telecommunications network operators and increasing mobile penetration accelerated growth in usage volumes in our network. This helped offset the negative impact from aggressive pricing and SARS, resulting in an increase in revenue of 6.5% to HK\$198 million. During the year, the Company continued to develop in the mobile infrastructure and began installing the first public wireless LAN network so that wireless broadband internet access can be launched early in 2004 on the AEL. We are also upgrading the system to ensure seamless use of 3G services within the railway network.

Our wholly-owned subsidiary TraxComm Limited secured a fixed telephone network services license in June, enabling it to exploit business opportunities as Hong Kong's only service provider focused exclusively on the wholesale market. TraxComm began to operate its DWDM-based network alongside the fibre-optic network. Revenues from TraxComm in its first year were lower than expected but its long term contracts are a good base for expansion.

## Station commercial facilities

Revenue from station commercial facilities was initially hurt by SARS, and the resulting slow-down or freezing of retailers' expansion plans. But the subsequent economic rebound combined with benefits from station renovations has more than offset the impact, leading to an increase in revenue of 16% to HK\$275 million.

Renovation work in stations raised the total commercial floor area in the MTR network by 6% during 2003, and 25 new trades or brands were added.

## External consulting

Our consulting business again posted strong growth as our reputation increased. Revenues rose 127% to HK\$143 million as contracts were secured in the Netherlands, India and Mainland China.

In Mainland China MTR now maintains an office in Shanghai with over 100 employees in a joint venture company. This company was appointed as the owner's representative on the 31-kilometre Phase I of the Shanghai Rail Transit Line No. 9 in Shanghai, covering all aspects of project management.

## Overseas investment

An agreement in-principle was signed with the Shenzhen Municipal Government for MTR to construct Phase 2 of Line 4 of the proposed Shenzhen Metro System and to operate the entire Line 4 for 30 years under a build-operate-transfer arrangement. The agreement also includes property development rights of 2.9 million square metres of commercial and residential property. The formal concession agreement is expected to be signed in 2004 following further design, planning and approval from the Beijing Central Government. In Beijing, we are evaluating an airport link and one other metro line opportunity. Elsewhere, light rail projects are under consideration for the Portsmouth area and Liverpool in the UK, and Vancouver, Canada.

## Octopus Cards Limited (Octopus)

Octopus cards in circulation rose from 9.3 million in 2002 to 10.4 million at the end of 2003 and the number of service providers from 182 to 253. However profit contribution to the Company from Octopus Cards Limited decreased by 40.4% to HK\$23.1 million due to the impact of SARS on travel and retail activities.

Together with MTR's consulting team, Octopus won contracts for a nationwide Automatic Fare Collection (AFC) system in the Netherlands, achieving its major target for 2003 of diversifying into international AFC consultancy. In Hong Kong, Octopus card usage increased in areas such as parking, retail and building access, whilst more financial service groups, led by Standard Chartered, Bank of China and AEON, joined the Automatic Add-Value Service.

Octopus won several awards, including a Brand Leader Award in Superbrands Hong Kong 2003 and Hong Kong Top Ten Brandnames Award 2003.

# Property Review

In 2002 amid excess supply of flats in the market, we agreed with Government policy to stabilise the market and did not tender out any property development packages in 2003. As a result, none of the remaining tenders for packages in Tseung Kwan O Town Centre and Area 86 was awarded during 2003. Instead, we focused our efforts on preparing for possible resumption of tender activity in 2004, as well as completing and pre-selling developments under construction.

Mainly as a result of profit from sharing in kind from Two IFC, property development profit increased by 43% over 2002 to HK\$5,369 million.

## Airport Railway

On the Airport Railway, profit from sharing in kind of approximately HK\$3 billion from the 18 floors of Two IFC and some 1,200 carparking spaces was booked in July. The 88-storey tower and IFC Mall were completed in July, while the two hotel towers are on schedule for completion in early 2005.

Given the project's complexity and tight construction time frame, its on-time completion was a major achievement and testified to the strong teamwork between all parties.

At Union Square in Kowloon Station, occupation permits were obtained for The Harbourside and Sorrento Phase 2. Foundation and basement excavation work for the 102-storey tower were completed and construction of the shopping centre, which will be majority owned by the Company, is on schedule.

At Olympic Station, refurbishment began at the Olympian City One shopping centre. At Tung Chung Station, 387 flats at Seaview Crescent Phase II and 1,240 flats at Caribbean Coast Phase II were launched for sale in June.

## Tseung Kwan O Line and Choi Hung Station

Along the Tseung Kwan O Line, our joint venture developer Sino Land launched the pre-sale of Residence Oasis, a 2,130 unit-residential development above Hang Hau Station. We also began preparation of pre-lease marketing for the 3,500 square metre retail podium at Hang Hau Station which will be known as "The Link." On completion, this retail podium will become, together with the shopping centre at Union Square, our fifth and sixth shopping centres, adding to the strength and diversity of our investment portfolio.

At the Tiu Keng Leng Site A and Choi Hung Station developments, we are on target to begin pre-sales in 2004. At Tseung Kwan O Town Centre Area 55b, the New World led consortium modified the Government lease terms. This will increase flexibility in designing flat mix to better match market demand.

At Area 86, where the train depot is located, we revised and improved the conceptual plan to offer more breezeways and open space. The first tender is anticipated to be invited in late 2004.

## Investment properties

The SARS outbreak and the weak economy had negatively impacted our investment properties but we took care to support our tenants, including offering temporary relief on rents. Revenue from investment properties declined by 1% to HK\$888 million.

During SARS, performance of our staff was outstanding in ensuring shoppers' safety and maintaining public confidence in our shopping centres. We also designed tailor-made programmes for the growing number of high spending visitors from the Mainland, which helped boost business of our retailing tenants. The Total Quality Service Regime, our pioneering customer service enhancement programme, also helped raise the standard and reputation of our shopping centres.

The quality of Two IFC and its first class management services enabled the Company to attract tenants despite lingering cautious sentiment. Swiss banking giant UBS' decision to lease seven floors of the building was one of the most significant office relocations in Hong Kong in 2003. At year end, approximately 60% of MTR's 18 floors was leased.

## Property management

Property management related business continued to expand and diversify during 2003, with revenue increasing by 11% to HK\$94 million.

During the year, Coastal Skyline, Caribbean Coast, and Seaview Crescent Phase II at Tung Chung Station, and Sorrento Phase I at Union Square were added to our portfolio, increasing the total number of flats managed by 4,841 to 46,915. The most important single addition, however, was Two IFC, which is managed under Premier Management Service. As a result of Two IFC, total managed area of commercial and office space increased significantly to 558,796 square metres, from 370,022 square metres in 2002. Efficiency was enhanced by the new computerised web-based Job Management system that links with the existing Property Management System. Effective precautionary measures successfully restricted the spread of SARS in our managed estates, where we also promoted waste recycling.

## Property agency

MTR Property Agency business remained profitable despite SARS and the weak market conditions. A total of 180 transactions was concluded, increasing revenue by 16.1% to HK\$6 million.

## China and overseas property business

We made further inroads in Mainland China. In 2003, we won a pre-management contract for the Tulip Gardens residential development in Shenzhen and for the Chongqing Palm Springs International residential development in Chongqing. In Beijing, we entered into a partnership with Beijing Century Sun Real Estate Development Company Limited to provide property management services and manage the Palm Springs International Apartments developments.

# Future Projects

MTR made progress on new projects, working to schedule and budget whilst minimising impacts during construction. We also continued discussions with the Government regarding a partnership approach for future rail projects.

## Penny's Bay Rail Link

Work on the Penny's Bay Rail Link connecting the new Hong Kong Disney Theme Park with the MTR network saw substantial progress, with all major civil and electrical and mechanical contracts either generally on or ahead of schedule, putting us on target for completion in mid-2005.

## Tung Chung Cable Car

Following enactment of the Tung Chung Cable Car Ordinance in June the overall Project Agreement, together with Entrustment Agreements for related works at Ngong Ping, were signed with the Government in November. A Private Treaty Grant for the theme village adjacent to the Ngong Ping terminal was signed and environmental permits for the cable car and the stream diversion were granted at the same time, leading to the award of the building and civil engineering works contracts. Construction will begin in early 2004, with a target completion date of early 2006, and a total outlay of HK\$950 million including capitalised interest.

## Railway extensions

In January 2003, the Government requested MTR to proceed with planning for the West Island and the South Island lines, as extensions to the MTR urban network. Consultants and MTR staff began work on the feasibility study in mid-2003. Alternative proposals were considered and a project proposal will be submitted to the Government in the second quarter of 2004. The proposed alignment

will provide a more cost-effective solution with better integration of the two new lines as well as improved interchanges with the existing network. The two lines will require direct Government funding support towards the capital cost. Design will commence as soon as Government support is secured. Construction is estimated to require approximately 48 months.

In November 2003, the Company was requested by the Government to submit a proposal for an extension of the Kwun Tong Line from Yau Ma Tei Station to Whampoa.

## Pedestrianisation

During 2003, new pedestrian entrances were completed at Kowloon Tong Station and also Mong Kok Station, where a further integrated entrance is under construction as part of the Urban Renewal Authority redevelopment, due for completion in mid-2004.

Work began on a pedestrian link project at Admiralty Station, as well as on alterations to the southern concourse of Tsim Sha Tsui Station to link to the KCRC East Rail project, which is due for completion by the end of 2005.

## Airport developments

The preliminary design was substantially completed for a new station at the end of the AEL at Chek Lap Kok airport to serve the proposed AsiaWorld-Expo development, which should be completed by the end of 2005, subject to concluding a satisfactory agreement.

## Transit links

We undertook preliminary studies on a light rail solution for the Kowloon Bay Industrial Area and the West Kowloon Cultural District, as part of our intention to develop feeder services to the MTR mainline network from centres beyond the walk-in catchment.

# Human Resources

During 2003, MTR was successful in further improving staff productivity whilst maintaining staff morale during SARS and preparing for the subsequent rebound.

## Enhancing staff productivity

MTR is dedicated to continuously improving staff productivity. During the year we increased staff communication to improve understanding of the challenges facing MTR and maintain high levels of motivation. To better benchmark staff attitude, our Staff Attitude Survey launched at the end of 2003 was revamped to include an Employee Satisfaction Index.

Through our employees' efforts and commitment, our patronage and commercial activities recovered faster than originally anticipated. The Company therefore decided to compensate employees fully for the salaries forgone under the One Day No Pay Leave Per Month Programme launched in 2003 during SARS.

## Talent development

Staff training is important to our continuous success and 47,688 man-days of training were conducted during the year. We received the international ASTD BEST Award from the American Society for Training and Development. Successful training was completed for Nam Cheong Station and we secured training consultancies for overseas metros including Shenzhen Metro, Bangkok Metro and Tianjin Binhai Metro.

Leadership development was strengthened by the New Horizon for Leaders programme for junior managers and senior supervisors, which in 2004 will be extended to junior supervisors. Putonghua and customer service training for frontline staff were implemented to help maximise revenue from the easing of restrictions on individual travellers from the Mainland.

## Code of conduct

MTR advocates a high level of employee integrity. Our Code of Conduct will be updated to ensure continued compliance with new standards. As well, a new staff guidebook will be published to provide specific guidelines on employee behaviour.

# Financial Review

## Financing achievements

### New financings

The Hong Kong dollar markets remained highly liquid. MTR privately placed HK\$2.3 billion in Hong Kong dollar bonds and a US\$100 million bond. Included in the Hong Kong dollar bonds was a HK\$500 million 15-year issue which was the single largest 15-year fixed rate bond ever issued in Hong Kong. MTR also arranged Hong Kong dollar bilateral loan facilities totalling HK\$5.2 billion. These transactions provided MTR with cost effective funding and helped extend its debt maturity profile. At year end, total undrawn committed bank loans amounted to HK\$6.7 billion providing sufficient coverage for all our anticipated funding needs well into 2004. The coverage was further extended following a US\$600 million 10-year Eurobond issued in January 2004. MTR also completed its first U.S. cross border leasing transaction using part of its fleet of trains, and net present value financial benefit received will be recognised as income over the terms of the lease.

### Cost of borrowing

Accommodative U.S. monetary policy pushed short and long term interest rates to historical lows which combined with attractive terms of the new financings allowed MTR to reduce its overall borrowing cost further to 5.1% from 5.4%, reducing gross interest expense by HK\$102 million.

### Risk management

The Company continued to manage its financing activities according to its well-established Preferred Financing Model with the result that its debt portfolio remained well diversified by maturity, instrument, currency and interest rate risks, with good forward financing coverage.

### Credit ratings

MTR maintained credit ratings on par with the Hong Kong SAR Government during 2003. Moody's affirmed the short-term foreign currency and long-term domestic currency ratings at P-1 and Aa3 respectively, and upgraded the long-term foreign currency rating by two notches to A1 with a stable outlook. S&P's ratings remained unchanged at A-1+/A-1 and AA-/A+ for short-term domestic/foreign currency and long-term domestic/foreign currency borrowings respectively with a stable/negative outlook on the foreign/domestic currency ratings. R&I also re-affirmed its short-term local currency and long-term domestic/foreign currency ratings at respectively a-1+ and AA/AA-.

### Financing capacity

Total capital expenditures between 2004 and 2006, including maintenance of existing lines as well as construction of Penny's Bay Rail Link and the Tung Chung Cable Car, are estimated at HK\$7.4 billion, giving MTR strong financing capacity to fund other new projects and investment opportunities, such as Shenzhen Line 4 and the South Island Line extension. The main expenditure for Shenzhen Line 4 is likely to be incurred after 2005, with the planned 40% equity investment to be financed by internal funds and external borrowings, and the remainder by non-recourse project financing in RMB.

## Review of financial results

### Profit and loss

**Total patronage** for the MTR Lines decreased by 0.9% from 777 million in 2002 to 770 million in 2003 owing to the effects of SARS. Average weekday patronage decreased to 2.24 million, compared to 2.26 million. Our overall market share of Hong Kong public transport increased from 23.5% to 24.3%, with cross-harbour share increasing from 58.2% to 58.7%.

**Total fare revenue** for the MTR Lines was slightly lower at HK\$5,064 million. The average fare decreased from HK\$6.65 to HK\$6.57, as a result of promotions.

**Airport Express Line** average daily patronage declined by 19.4% to 18,700 due to the fall in visitor arrivals during SARS. Market share of airport passengers fell from 25% to 23%. Total AEL revenue dropped 23.1% to HK\$425 million, the average fare decreasing from HK\$65.43 to HK\$62.07 due to promotions and fare concessions.

**Non-fare revenues** increased by 7.1% to HK\$2,105 million, comprising HK\$988 million from property rental and management and HK\$1,117 million from station commercial and other revenue.

**Operating expenses before depreciation** increased by 4.8% to HK\$3,847 million despite the full year's operation of the Tseung Kwan O Line. Staff costs increased from HK\$1,579 million to HK\$1,643 million for this reason and separation payments. A non-recurring deficit on property revaluation of HK\$69 million was recorded.

**Operating profit from railway and related operations before depreciation** was HK\$3,747 million, down 6.7% and representing a 49.3% margin compared with 52.2% in 2002. Excluding the non-recurring charge, the operating margin would have been 50.3%.

**Profit on property developments** was significantly higher at HK\$5,369 million, mainly from Two IFC and the Sorrento development at Union Square.

**Operating profit before depreciation** increased by 17.3% to HK\$9,116 million. Following a review of useful lives of assets, depreciation charges decreased by 2.8% to HK\$2,402 million.

**Net interest expense** increased from HK\$1,125 million to HK\$1,539 million, reflecting the first full year's interest expenses on the Tseung Kwan O Line, but interest cover rose from 4.5 times to 5.6 times.

**Revised accounting standard** saw MTR recognise HK\$748 million mostly in respect of deferred income tax.

**Net profit** for the year, including a contribution from Octopus Cards of HK\$23 million, increased by 24.3% to HK\$4,450 million and earnings per share were HK\$0.85. A final dividend of 28 cents was recommended.

### Balance sheet

**Total fixed assets** increased from HK\$94,270 million in 2002 to HK\$96,921 million as a result of the retained office space and car parks in Two IFC.

**Railway construction in progress** rose by 66.1% to HK\$181 million, following reclassification of the Tung Chung Cable Car project cost from deferred expenditure.

**Property development in progress** amounted to HK\$2,309 million, a reduction of 19.5% due to the transfer out of development costs in respect of Two IFC upon completion.

**Debtors, deposits and payments in advance** increased from HK\$727 million to HK\$1,153 million mainly due to proceeds receivable from sale of properties around year end.

**Cash and cash equivalents** stood at HK\$376 million compared to HK\$1,718 million.

**Total loans outstanding** amounted to HK\$32,025 million, a decrease of HK\$1,483 million, representing loan repayments.

**Deferred income** decreased from HK\$6,226 million to HK\$5,061 million, as amounts were recognised as profit from developments.

**Share capital, share premium and capital reserve** at HK\$35,086 million, was slightly higher, as a result of shares issued from the scrip dividend and share options exercised.

**Total shareholders' funds** stood at HK\$57,292 million, an increase of HK\$3,718 million, mainly attributable to retained profits net of dividend payments, resulting in an improved gross debt-to-equity ratio of 55.9% against 62.5%, and net debt-to-equity ratio from 59.3% to 55.2%.

### Cash flow

**Net cash inflow** from operations decreased slightly to HK\$3,837 million due to lower operating profit from railway and related operations before depreciation. The major cash outflows related to payments for capital projects, interest, dividend, as well as a net loan repayment totalling HK\$6,090 million, partly offset by property sale proceeds of HK\$855 million. Overall, there was a net cash outflow of HK\$1,320 million against a previous inflow of HK\$1,518 million.

\* Note: Comparisons refer to the 2002 financial year. Balance sheet figures refer to 31 December year end.

# Ten-year statistics

	2003*	2002*	2001*	2000*	1999	1998	1997	1996	1995	1994
<b>Financial</b>										
<b>Profit and loss account</b>										
<i>in HK\$ million</i>										
Turnover	7,594	7,686	7,592	7,577	7,252	6,981	6,574	6,253	5,737	5,188
Operating profit before depreciation	9,116	7,769	7,301	7,290	5,523	4,720	3,805	3,342	3,143	2,901
Depreciation	2,402	2,470	2,178	2,091	2,039	1,426	927	850	658	594
Interest and finance charges	1,539	1,125	874	1,143	1,104	475	95	957	1,289	1,269
Profit	4,450	3,579	4,278	4,069	2,116	2,819	2,783	1,535	1,196	1,038
Dividend proposed and declared	2,215	2,161	2,118	500	–	–	1,252	647	–	–
Earnings per share <i>in HK\$</i>	0.85	0.70	0.85	0.81	0.42	–	–	–	–	–
<b>Balance sheet</b>										
<i>in HK\$ million</i>										
Total assets	102,366	101,119	98,126	92,565	87,250	82,104	75,428	64,644	45,356	35,487
Loans, obligations under finance leases and bank overdrafts	32,025	33,508	31,385	27,203	23,177	16,897	10,875	12,696	14,736	18,121
Deferred income	5,061	6,226	8,411	10,403	13,776	15,970	16,705	9,094	1,056	–
Shareholders' funds	57,292	53,574	53,893	50,355	45,115	42,601	41,815	35,473	25,261	12,363
<b>Financial ratios</b>										
<i>in percentage</i>										
Operating margin	49.3	52.2	53.4	51.7	48.2	47.3	53.7	53.4	54.8	55.8
Non-fare revenue as a percentage of turnover	27.7	25.6	24.6	24.6	22.2	22.1	21.0	18.8	17.8	16.8
Gross debt-to-equity ratio	55.9	62.5	58.2	54.0	51.4	39.7	26.0	35.8	58.3	146.6
Gross debt-to-equity ratio (excluding revaluation reserves)	63.3	71.1	66.4	62.2	58.5	45.0	31.3	43.8	73.4	251.9
Interest cover <i>in times</i>	5.6	4.5	3.8	3.8	3.7	5.1	15.7	4.0	2.9	2.1
<b>Employees</b>										
Corporate management and service departments	855	886	930	966	1,031	1,317	1,104	1,069	1,075	1,042
Operations	4,730	4,836	4,756	4,943	5,132	5,890	4,575	4,499	4,490	4,345
Engineering and project	402	551	978	904	918	1,111	2,380	1,871	1,444	729
Property development and management	642	618	567	519	456	468	427	405	388	366
Total	6,629	6,891	7,231	7,332	7,537	8,786	8,486	7,844	7,397	6,482



	2003*	2002*	2001*	2000*	1999	1998	1997	1996	1995	1994
<b>Railway operations</b>										
<b>Revenue car km operated</b>										
<i>in thousands</i>										
MTR Lines	112,823	103,318	96,751	92,199	94,704	94,260	84,258	83,769	82,472	80,012
Airport Express Line	15,227	19,467	19,458	19,557	19,394	9,011	-	-	-	-
<b>Total number of passengers</b>										
<i>in thousands</i>										
MTR Lines	770,419	777,210	758,421	767,416	779,309	793,602	811,897	816,572	812,519	804,062
Airport Express Line	6,849	8,457	9,022	10,349	10,396	3,928	-	-	-	-
<b>Average number of passengers</b>										
<i>in thousands</i>										
MTR Lines – weekday average	2,240	2,261	2,231	2,240	2,284	2,326	2,382	2,379	2,377	2,335
Airport Express Line – daily average	19	23	25	28	29	22	-	-	-	-
<b>Average passenger km travelled</b>										
MTR Lines	7.7	7.6	7.4	7.3	7.4	7.4	7.4	7.5	7.5	7.5
Airport Express Line	29.7	29.9	29.8	29.7	29.9	31.2	-	-	-	-
<b>Average car occupancy</b>										
MTR Lines	53	57	58	61	61	62	71	73	74	76
Airport Express Line	13	13	14	16	16	14	-	-	-	-
<b>Proportion of franchised public transport boardings</b>										
<i>in percentage</i>										
All movements	24.3	23.5	23.5	24.1	25.2	25.7	25.9	26.7	27.4	27.8
Cross-harbour movements	58.7	58.2	57.4	57.9	60.3	61.9	64.2	66.5	67.6	67.1
<b>Proportion of transport boardings</b>										
<i>in percentage</i>										
To/from the airport	23	25	27	28	32	25	-	-	-	-
<b>HK\$ per car km operated (all services)</b>										
Fare revenue	42.9	46.6	49.3	51.1	49.4	52.7	61.6	60.6	57.2	53.9
Railway operating costs	22.5	22.8	24.6	26.8	27.3	29.2	29.5	29.1	26.0	23.9
Railway operating profit	20.4	23.8	24.7	24.3	22.1	23.5	32.1	31.5	31.2	30.0
<b>HK\$ per passenger carried (all services)</b>										
Fare revenue	7.06	7.28	7.46	7.35	7.14	6.82	6.39	6.22	5.80	5.37
Railway operating costs	3.70	3.57	3.72	3.85	3.94	3.78	3.06	2.99	2.64	2.38
Railway operating profit	3.36	3.71	3.74	3.50	3.20	3.04	3.33	3.23	3.16	2.99
<b>Safety performance</b>										
Number of incidents	641	690	686	748	859	842	814	869	716	794
Incidents per million passengers carried	0.82	0.88	0.89	0.96	1.09	1.05	1.00	1.06	0.88	0.99
Number of staff and contractors' staff accidents	33	24	39	36	49	65	54	40	42	61

\* Consolidated results

# Board and Executive Directorate

## Members of the Board

**Dr. Raymond Ch'ien Kuo-fung** 52, was appointed Non-Executive Chairman in July 2003. He has been a Board Member since 1998. Dr. Ch'ien is Executive Chairman of chinadotcom corporation and Chairman of the Hong Kong/Japan Business Cooperation Committee. He is also a non-executive Director of a number of major international companies including HSBC Holdings plc.

**Chow Chung-kong** 53, was appointed Chief Executive Officer on 1 December 2003. He was formerly Chief Executive Officer of Brambles Industries PLC. From 1997 to 2001, Mr. Chow was Chief Executive of GKN PLC and before that, he spent 20 years with the BOC Group PLC and was appointed Chief Executive of its Gases Division in 1993. Mr. Chow was knighted in the United Kingdom in 2000 for his contribution to industry. He is a non-executive director of Standard Chartered PLC.

**Professor Cheung Yau-kai** 69, was appointed to the Board on 1 March 1999. Professor Cheung is Honorary Professor of Engineering and Special Adviser to the Vice-Chancellor of The University of Hong Kong.

**David Gordon Eldon** 58, joined the Board on 1 May 1999. He is the Chairman of The Hongkong and Shanghai Banking Corporation Limited and a Director of HSBC Holdings plc.

**Edward Ho Sing-tin** 65, has been a Board Member since 1991. He is an architect and is Deputy Chairman and Managing Director of Wong Tung & Partners Limited.

## Members of the Executive Directorate

**Chow Chung-kong** Brief biographical details are set out above.

**Russell John Black** 57, is a civil engineer. He initially worked for the Company from 1976 to 1984 and, prior to rejoining the Company in 1992 as Project Director, he was Project Director on the London Underground Jubilee Line Extension.

**William Chan Fu-keung** 55, joined the Company as Human Resources Manager in 1989. He joined the Executive Directorate in 1996 as Divisional Manager, Human Resources & Administration and became Human Resources Director in August 1998.

**Philip Gaffney** 56, was appointed Operations Director in July 1998. He joined the Company in 1977 and was previously Deputy Director, Operations Engineering. Mr. Gaffney is a railway signalling engineer.

**Lo Chung-hing** 52, joined the Board in 1995. Mr. Lo is currently General Manager of Bank of China (Hong Kong) Ltd, after the restructuring of the Bank of China Group in October 2001.

**T. Brian Stevenson** 59, a Chartered Accountant was appointed to the Board on 1 October 2002. He is a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and the Securities and Futures Commission. Mr. Stevenson is a Member of the Public Service Commission.

**Commissioner for Transport** (Robert Charles Law Footman 51, joined the Board in June 2000. He is the Commissioner for Transport of the Government of the Hong Kong SAR. Mr. Footman had previously served as Postmaster General, Head of the Efficiency Unit and Deputy Director-General of Trade of the Hong Kong Government.)

### Secretary for the Environment, Transport and Works

(Dr. Sarah Liao Sau-tung 52, joined the Board in August 2002 after her appointment as the Secretary for the Environment, Transport and Works of the Government of the Hong Kong SAR on 1 July 2002.)

**Frederick Ma Si-hang** 52, became a Board Member on 1 July 2002 upon his appointment as Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR.

**Thomas Ho Hang-kwong** 53, has served as Property Director since joining the Company in 1991. Between 1971 and 1990, he worked for the Hong Kong Government specialising in land administration. Mr. Ho is a Chartered Surveyor.

**Lincoln Leong Kwok-kuen** 43, is a Chartered Accountant and graduated from Cambridge University. Prior to joining the Company as Finance Director in February 2002, he worked in both the accountancy and investment banking industries.

**Leonard Bryan Turk** 54, is a solicitor admitted to practice both in England and Wales and in Hong Kong. He joined the Company in 1981 and has been Legal Director and Secretary to the Board since 1988.

# Report of the Members of the Board

The members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2003.

## Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

- A** the operation of a mass transit railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line) and from Hong Kong to the Hong Kong International Airport at Chek Lap Kok (Airport Express Line);
- B** property development at locations relating to the railway system including the Tseung Kwan O Extension;
- C** related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway system, property management and leasing management of investment properties (including shopping centres and offices), property agency and Octopus Card Building Access System services;
- D** the construction of the Penny's Bay Rail Link;
- E** the design, construction and operation of the Tung Chung Cable Car Project and related tourist development;
- F** the planning and construction of future extensions to the railway system and other related infrastructure projects;
- G** consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;
- H** the operation of a smart card system by Octopus Cards Limited, a subsidiary of the Company, for the collection of payments for both transport and non-transport applications; and
- I** equity investments and long term operation and maintenance contracts outside of Hong Kong.

## Dividend

The Directors have recommended a final dividend of HK\$0.28 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 2 April 2004. Subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, such dividend will be payable on or about 30 June 2004, in cash in Hong Kong dollars, with a scrip dividend alternative.

## Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (appointed non-executive Chairman with effect from 21 July 2003), Jack So Chak-kwong (whose term of office as Chairman and Chief Executive expired on 20 July 2003 and who ceased to be a member of the Board with effect from the same date), Chow Chung-kong (appointed Chief Executive Officer and a member of the Board with effect from 1 December 2003), Cheung Yau-kai, David Gordon Eldon, T. Brian Stevenson, Edward Ho Sing-tin, Lo Chung-hing, Frederick Ma Si-hang, the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung) and the Commissioner for Transport (Robert Charles Law Footman).

Christine Fang Meng-sang was appointed a Member of the Board with effect from 1 January 2004.

At the Annual General Meeting on 15 May 2003 and pursuant to the Company's Articles of Association ("Articles"), Cheung Yau-kai, Edward Ho Sing-tin, T. Brian Stevenson and Frederick Ma Si-hang retired under the Company's Articles of Association and were re-elected as members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles, Raymond Ch'ien Kuo-fung and David Gordon Eldon will retire by rotation. Chow Chung-kong and Christine Fang Meng-sang, who were appointed by the Board after the 2003 Annual General Meeting, will retire under Article 85 of the Articles. All these four Board members will offer themselves for re-election at the forthcoming Annual General Meeting.

Brief biographical details for Board members are set out on page 16.

Following the departure of Jack So Chak-kwong mentioned above, Philip Gaffney, Operations Director was appointed Acting Chief Executive Officer with effect from 21 July 2003. He ceased to be Acting Chief Executive Officer upon the appointment of Chow Chung-kong as Chief Executive Officer with effect from 1 December 2003.

## Alternate Directors

The Alternate Directors in office during the year were (i) Martin McKenzie Glass and Alan Lai-nin (both for Frederick Ma Si-hang), (ii) both the Permanent Secretary for the Environment, Transport & Works (Rita Lau Ng Wai-lan) and the Deputy Secretary for the Environment, Transport & Works (Paul Tang Kwok-wai [who ceased to be a Deputy Secretary for the Environment, Transport & Works after 31 October 2003], Arthur Ho Kin-wah, Margaret Fong Shun-man and Annie Choi Suk-han [who was appointed as a Deputy Secretary for the Environment, Transport & Works with effect from 24 November 2003]) (for the Secretary for the Environment, Transport & Works), and (iii) the Deputy Commissioner for Transport/Transport Services and Management (Judy Li Wu Wai-lok) (for the Commissioner for Transport).

## Executive Directorate

The members of the Executive Directorate who served during the year were Jack So Chak-kwong (whose term of office as Chairman and Chief Executive expired on 20 July 2003 and who also ceased to be a member of the Executive Directorate with effect from the same date), Chow Chung-kong (appointed Chief Executive Officer and a member of the Board with effect from 1 December 2003), Russell John Black, William Chan Fu-keung, Philip Gaffney, Thomas Ho Hang-kwong, Lincoln Leong Kwok-ken and Leonard Bryan Turk.

Brief biographical details for members of the Executive Directorate during the year are set out on page 16.

## Corporate Governance

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices.

The overall management of the Company's business is vested in the Board of Directors. Pursuant to the Company's Articles of Association and the Protocol adopted by the Board of Directors, the Board of Directors has delegated the day-to-day management of the Company's business to the Executive Directorate, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders.

The Company takes care to ensure the Board is in a position to exercise its powers in an informed manner. The Board of Directors meets regularly and members of the Board receive information between meetings about developments in the Company's business. All members of the Board of Directors have full and timely access to relevant information and may take independent professional advice, if necessary. The Board of Directors held 12 meetings in 2003 and the average attendance rate was 85%.

The Board of Directors announced in April 2003 its decision to split the roles of the Chairman and Chief Executive Officer after Jack So Chak-kwong's contract as Chairman and Chief Executive expired during the year. Following that, Dr. Raymond Ch'ien Kuo-fung, a member of the Board, was appointed non-executive Chairman with effect from 21 July 2003, and Chow Chung-kong was appointed Chief Executive Officer and a member of the Board with effect from 1 December 2003.

As an integral part of good corporate governance, the following committees have been established. These committees comprise non-executive Directors who have been invited to serve as members.

#### **Audit Committee**

The Audit Committee meets four times each year to review the truth and fairness of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control. Internal control systems have been designed to allow the Board of Directors to monitor the Company's overall financial position and to protect its assets. The purpose is to guard against material financial misstatement or loss. The Board of Directors is responsible for these systems and appropriate authorisations and guidelines are in place. The Audit Committee Chairman also prepares an annual report to the Board of Directors covering its activities for the year and highlighting issues which the Chairman deems significant.

All the members of the Audit Committee are non-executive Directors, namely T. Brian Stevenson (chairman), Cheung Yau-kai and the Commissioner for Transport (Robert Charles Law Footman), two of whom are independent non-executive Directors. There were four meetings of the Audit Committee in year 2003 and the average attendance rate was 83%. The external auditors, the Finance Director and the Head of Internal Audit Department attended to answer questions on the reports or their work.

#### **Remuneration Committee**

The Remuneration Committee meets regularly to consider human resources issues, including the terms and conditions of employment, remuneration and retirement benefits of the Chairman, the Chief Executive Officer and members of the Executive Directorate. All the members of the Remuneration Committee are non-executive Directors, namely Edward Ho Sing-tin (chairman) who was a member of the Committee throughout the year, succeeded Dr. Raymond Ch'ien Kuo-fung as chairman of the Committee with effect from 4 September 2003, T. Brian Stevenson (with effect from 4 September 2003) and Frederick Ma Si-hang, two of whom are independent non-executive Directors. There was one meeting of the Remuneration Committee in year 2003 and the attendance rate was 100%.

#### **Nominations Committee**

The Nominations Committee carries out the process of recommending and nominating candidates to fill vacancies on the Board of Directors. A person may be appointed as a member of the Board of Directors at any time either by the shareholders in general meeting or by the Board of Directors upon the recommendation of the Nominations Committee. Directors who are appointed by the Board of Directors must retire at the first annual general meeting after their appointment. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company, one third of the Directors (or such number as is nearest to and less than one third) are required to retire from office by rotation (excluding the Directors appointed by the Chief Executive of the Hong Kong SAR under the Mass Transit Railway Ordinance).

All the members of the Nominations Committee are non-executive Directors, namely David Gordon Eldon (chairman), Lo Chung-hing and the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung), two of whom are independent non-executive Directors. There was one meeting of the Nominations Committee in year 2003 and the attendance rate was 100%.

The Board of Directors was of the view that both the Nominations Committee and the Remuneration Committee should be involved in the process of appointing a new Chief Executive Officer for the Company. For this purpose, the Board resolved in April 2003 to establish a Board Search Committee. The Members of the Board Search Committee were Chairman of the Nominations Committee

(David Gordon Eldon), then Chairman of the Remuneration Committee (Dr. Raymond Ch'ien Kuo-fung) and Frederick Ma Si-hang. The Board Search Committee held several meetings during the year and made a recommendation on the appointment of Chow Chung-kong as the Chief Executive Officer and a Member of the Board with effect from 1 December 2003, as well as his terms of remuneration.

#### **Code of Best Practice**

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKSE") except that non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung has been a non-executive Director since 1998. He was also appointed non-executive Chairman in July 2003 for a term of three years.

#### **U.S. Sarbanes-Oxley Act 2002**

This legislation which seeks to enhance the transparency and accountability of companies in the areas of corporate governance and financial reporting, was signed into law by the President of the United States on 30 July 2002.

As the Company is a U.S. Securities and Exchange Commission reporting company, it is generally bound by this new legislation.

The Company has been, and will continue its process of reviewing its internal systems and practices and implementing new requirements under this legislation in line with applicable compliance dates.

#### **Internal Audit**

The Company's Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the Department include:

- Assessments on the adequacy and effectiveness of the Company's system of internal control for controlling its activities and managing its risks.
- Identification of opportunities for improving management control, resources utilisation and profitability.
- Special reviews and/or investigations as commissioned by Company management.

The Company's Internal Auditor reports directly to the Chief Executive Officer and has direct access to the Audit Committee.

#### **Business Ethics**

The Company is committed to high standard of business ethics and integrity.

The Company is in the process of reviewing the contents of the Code of Conduct to align it with recent developments in corporate governance standards, including corporate governance standards under the Sarbanes-Oxley Act of 2002. Furthermore, the Company is in the process of compiling a new "Corporate Guidebook for All Staff on Code of Conduct", which provides specific guidelines for employees in respect of behaviour within and outside the workplace.

#### **Policies**

The Board has adopted risk strategies on the following matters:

- A Construction and insurance;
- B Finance;
- C Treasury risk management;
- D Safety risk management;

**E Security management.**

No changes to such policies may be made without the approval of the Board of Directors.

**Summary Financial Statements**

The state of affairs of the Group as at 31 December 2003 and of its results for the year are set out in the summary financial statements on pages 22 to 27.

**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 are set out on pages 14 to 15.

**Fixed Assets and Railway Construction in Progress**

Movements in fixed assets and railway construction in progress during the year are set out in Notes 4A and 4B to the summary financial statements respectively.

**Movements in Reserves**

Movements in reserves during the year are set out in Note 6 to the summary financial statements.

**Share Capital**

As at 31 December 2002, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,158,748,655 of which were issued and credited as fully paid. During the year, the Company issued a total of 129,946,738 Ordinary Shares. Of this number:

**A** 10,489,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's Pre-Global Offering Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercising share option holder paid HK\$8.44 to the Company;

**B** 82,018,666 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2002 (for which the cash dividend was HK\$0.28 per Ordinary Share); and

**C** 37,438,572 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months ended 30 June 2003 (for which the cash dividend was HK\$0.14 per Ordinary Share).

As at 31 December 2003, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,288,695,393 of which were issued and credited as fully paid.

**Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2003.

**Donations**

During the year, a total of HK\$579,912 was donated, of which HK\$429,912 went to the Community Chest Green Day of Hong Kong.

**Internal Control**

The Board of Directors is responsible for ensuring that there is in place a satisfactory system of internal control. The main objectives are to ensure adherence to management policies, the safeguarding of assets, the efficiency and effectiveness of operation, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

A function of the Audit Committee is to review the effectiveness of the system of internal control from information provided by the Executive Directorate and management of the Company and by the auditors.

**Reporting and Monitoring**

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board of Directors. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board of Directors 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 profile according to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debts, 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 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 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 credit risk management framework are approved at the Board level.

**Capital and Revenue Expenditure**

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditure 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 require the approval of the Board.

**Bonds and Notes Issued**

The Group issued bonds and notes during the year ended 31 December 2003, details of which are set out in Note 5 to the summary financial statements. Such bonds and notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

**Computer Processing**

There are defined procedures 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 has been certified under ISO 9001:2000.

**Interests in Contracts of Members of the Board and the Executive Directorate**

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a member of the Board or a member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year.

**Board Members' and Executive Directorate's Interests in Shares**

As at 31 December 2003, the interests or short positions of the members of the Board of Directors 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 ("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 for Securities Transactions by the Directors of Listed Companies were as follows:

## Ordinary Shares

Member of the Board of Directors or Executive Directorate	Number of Ordinary Shares		Number of Share Options		Percentage of aggregate interests to total issued share capital
	Personal* interests	Family† interests	Personal* interests	Total interests	
T. Brian Stevenson	4,292	–	–	4,292	0.0001
Philip Gaffney	46,467	614	1,022,000 (Note 1)	1,069,081	0.0202
Russell John Black	49,384	–	–	49,384	0.0009
William Chan Fu-keung	46,233	–	822,000 (Note 1)	868,233	0.0164
Thomas Ho Hang-kwong	50,471	2,467	621,000 (Note 1)	673,938	0.0127
Lincoln Leong Kwok-kuen	–	–	1,066,000 (Note 2)	1,066,000	0.0202

## Bonds

Member of the Executive Directorate	Personal interests*
William Chan Fu-keung	HK\$101,010 MTR 201 3.75 per cent. Notes due 2004 HK\$50,740 MTR 301 4.50 per cent. Notes due 2005

\* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

## Notes

1. Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the Pre-Global Offering Share Option Scheme.

2. Further details of the above share options are set out in the table on page 21 showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

## Options to subscribe for Ordinary Shares granted under the Pre-Global Offering Share Option Scheme, as referred to in Note 2B(i) to the summary financial statements

Executive Directorate	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2003	Options vested during the year	Options lapsed during the year	Options exercised during the year	Price per share paid on exercise of options (HK\$)	Options outstanding as at 31 December 2003	Weighted average closing price of shares immediately before the date(s) on which options were exercised
Philip Gaffney	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	1,022,000	355,000	–	–	–	1,022,000	–
Russell John Black	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	1,022,000	355,000	–	1,022,000	8.44	–	10.48
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	1,022,000	355,000	–	200,000	8.44	822,000	10.38
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	1,021,000	355,000	–	400,000	8.44	621,000	10.43
Leonard Bryan Turk	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	1,022,500	355,000	–	1,022,500	8.44	–	10.61
Other eligible employees	20/9/2000	40,343,000	5/4/2001 – 11/9/2010	30,055,000	10,087,500	1,044,500	6,246,000	8.44	22,764,500	10.03

## Notes

1. The Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") shall be valid and effective for a period of ten years after the adoption of the Pre-IPO Option Scheme on 12 September 2000. No option may be offered to be granted on or after the commencement of dealings in shares of the Company on HKSE on 5 October 2000.

2. The number of shares to which the option granted to each participant under the Pre-IPO Option Scheme does not exceed 25% of the number of the shares issued and issuable under the Pre-IPO Option Scheme.

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme, as referred to in Note 2B(ii) to the summary financial statements

Executive Directorate	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2003	Options vested during the year	Options lapsed during the year	Options exercised during the year	Price per share paid on exercise of options (HK\$)	Options outstanding as at 31 December 2003	Weighted average closing price of shares immediately before the date(s) on which options were exercised
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	–	–	–	–	–	1,066,000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	–	–	–	–	–	495,200	–

Notes

1. No option may be exercised later than ten years after its date of offer and no option may be offered to be granted more than five years after the adoption of the New Joiners Share Option Scheme ("New Option Scheme") on 12 April 2002.

2. Unless approved by shareholders in the manner as required by the Rules Governing the Listing of Securities on HKSE, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the New 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 1 per cent. of the shares of the Company in issue at the date of offer in respect of such option under the New Option Scheme.

Out of 1,599,000 options granted on 20 September 2000 under the Pre-Global Offering Share Option Scheme to Jack So Chak-kwong, former Chairman and Chief Executive, 1,066,000 vested options remained outstanding as at 1 January 2003. During the year ended 31 December 2003, the remaining 533,000 options were vested and the total 1,599,000 options were exercised and the weighted average closing price of shares immediately before the options were exercised was HK\$10.56.

On 1 August 2003, 1,561,200 options to subscribe for shares of the Company were granted to Lincoln Leong Kwok-kuen, a member of the Executive Directorate, and four other employees under the New Joiners Share Option Scheme. Pursuant to the terms of this Scheme, each grantee undertakes to pay HK\$1.00, on demand, to the Company, in consideration for the grant of the options (the closing market price per share immediately before the date on which the options were granted was HK\$9.25). The share options granted are not recognised in the accounts until they are exercised and the weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model, was HK\$1.77 based on the following weighted average assumptions:

Risk-free interest rate	4.82%
Expected life (in years)	5
Volatility	0.24
Expected dividend per share	HK\$0.42

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

**A** none of the members of the Board of Directors or 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 2003, no member of the Board of Directors or Executive Directorate 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 for Securities Transactions by Directors of Listed Companies.

### Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5 per cent. or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which it was interested as at 31 December 2003 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
Financial Secretary Incorporated (in trust on behalf of the Government)	4,036,430,908	76.32

### Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2003 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2003 was attributable to the Company's five largest customers combined by value.

### Going Concern

The summary financial statements on pages 22 to 27 have been prepared on a going concern basis. The Board of Directors has reviewed the Company's budget for 2004, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

By order of the Board

Leonard Bryan Turk  
Secretary to the Board  
Hong Kong, 2 March 2004

## Consolidated profit and loss account

for the year ended 31 December in HK\$ million	2003	2002 (Note 1)
Fare revenue		
– MTR Lines	5,064	5,167
– Airport Express Line	425	553
Station commercial and other revenue	1,117	979
Rental and management income	988	987
<b>Turnover</b>	<b>7,594</b>	7,686
Staff costs and related expenses	(1,643)	(1,579)
Energy and utilities	(546)	(502)
Operational rent and rates	(21)	(87)
Stores and spares consumed	(128)	(121)
Repairs and maintenance	(477)	(435)
Railway support services	(80)	(89)
Expenses relating to station commercial and other businesses	(351)	(185)
Property ownership and management expenses	(198)	(167)
Project study and deferred expenditures written off	(49)	(218)
General and administration expenses	(167)	(184)
Other expenses	(187)	(105)
<b>Operating expenses before depreciation</b>	<b>(3,847)</b>	(3,672)
<b>Operating profit from railway and related operations before depreciation</b>	<b>3,747</b>	4,014
Profit on property developments	5,369	3,755
<b>Operating profit before depreciation</b>	<b>9,116</b>	7,769
Depreciation	(2,402)	(2,470)
<b>Operating profit before interest and finance charges</b>	<b>6,714</b>	5,299
Interest and finance charges	(1,539)	(1,125)
Share of profit of non-controlled subsidiary	23	39
<b>Profit before taxation</b>	<b>5,198</b>	4,213
Income tax	(748)	(634)
<b>Profit attributable to shareholders</b>	<b>4,450</b>	3,579
Dividends		
Interim dividend declared and paid during the year	734	717
Final dividend proposed after the balance sheet date	1,481	1,444
	2,215	2,161
Earnings per share:		
– Basic	HK\$0.85	HK\$0.70
– Diluted	HK\$0.85	HK\$0.70

The notes on pages 24 to 27 form part of these summary financial statements.



at 31 December in HK\$ million	2003	2002 (Note 1)
<b>Assets</b>		
Fixed assets		
– Investment properties	14,169	10,267
– Other property, plant and equipment	82,752	84,003
	96,921	94,270
Railway construction in progress	181	109
Property development in progress	2,309	2,870
Deferred expenditure	104	106
Interest in non-controlled subsidiary	110	87
Staff housing loans	67	84
Properties held for sale	812	794
Stores and spares	249	259
Debtors, deposits and payments in advance	1,153	727
Amounts due from the Government and other related parties	84	95
Cash and cash equivalents	376	1,718
	102,366	101,119
<b>Liabilities</b>		
Bank overdrafts	12	34
Short-term loans	353	–
Creditors, accrued charges and provisions	3,420	3,760
Taxes payable	2	1
Contract retentions	311	496
Amounts due to the Government and other related parties	161	209
Loans and obligations under finance leases	31,660	33,474
Deferred liabilities	86	85
Deferred income	5,061	6,226
Deferred tax liabilities	4,000	3,252
	45,066	47,537
<b>Minority interests</b>	8	8
<b>Net assets</b>	57,292	53,574
<b>Shareholders' funds</b>		
Share capital, share premium and capital reserve	35,086	33,910
Other reserves	22,206	19,664
	57,292	53,574

Approved and authorised for issue by the Members of the Board on 2 March 2004

Raymond K F Ch'ien

C K Chow

Lincoln K K Leong

# Notes to the summary financial statements

## 1 Significant accounting policies

This summary financial statements have been prepared from the audited financial statements of the Company and all its subsidiaries (the "Group") for the year ended 31 December 2003.

The same accounting policies adopted in the 2002 annual accounts have been consistently applied except for adoption of the following new accounting policies in 2003:

- Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes"; and
- Lease out and lease back transactions.

Certain comparative figures have been restated and reclassified following adoption of the new accounting policies.

## 2 Remuneration of Members of the Board and the Executive Directorate

### A Remuneration of Members of the Board and the Executive Directorate

(i) The aggregate emoluments of the Members of the Board and the Executive Directorate of the Company disclosed pursuant to section 161 of the Hong Kong Companies Ordinance were as follows:

<i>in HK\$ million</i>	2003	2002
Fees	2	2
Salaries, housing allowances and other benefits-in-kind	28	29
Variable remuneration related to performance	3	3
Retirement scheme contributions	4	4
	<b>37</b>	<b>38</b>

The above emoluments do not include realised gains on exercise of share options amounting to HK\$8.7 million (2002: HK\$0.2 million) in respect of certain Members of the Executive Directorate, which are disclosed under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

Non-executive directors of the Company are not appointed for a specific term but are subject (save as those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association.

(ii) The gross emoluments (excluding share option benefit) of the Members of the Board and the Members of the Executive Directorate were within the following bands:

Emoluments	2003 Number	2002 Number
HK\$0 – HK\$250,000	8	13
HK\$500,001 – HK\$1,000,000	2	1
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	3	1
HK\$4,500,001 – HK\$5,000,000	2	4
HK\$5,000,001 – HK\$5,500,000	1	–
HK\$6,000,001 – HK\$6,500,000	1	–
HK\$7,500,001 – HK\$8,000,000	–	1
	<b>17</b>	<b>21</b>

The information shown in the above table includes the five highest paid employees. The independent non-executive directors' emoluments are included in the first remuneration band except the non-executive Chairman, whose emolument is included in the second remuneration band. Emolument of the ex-Chairman, Jack C K So who resigned on 20 July 2003, is included under the highest remuneration band in both 2002 and 2003.

## 2 Remuneration of Members of the Board and the Executive Directorate (continued)

(iii) The remuneration details (excluding share option benefit) of the current members of the Executive Directorate are shown below:

in HK\$ million	2003			2002
	Base pay, allowance, retirement scheme contribution and benefits	Variable remuneration related to performance	Total	Total
Chief Executive Officer ("CEO")*	0.56	0.12	0.68	–
Finance Director <sup>#</sup>	3.88	0.42	4.30	3.96
Human Resources Director	4.03	0.42	4.45	4.49
Legal Director and Secretary	4.25	0.42	4.67	4.72
Operations Director	4.68	0.43	5.11	4.78
Project Director	4.22	0.43	4.65	4.72
Property Director	4.04	0.42	4.46	4.52
	25.66	2.66	28.32	27.19

\* Appointed in December 2003

<sup>#</sup> Appointed in February 2002

(iv) The CEO will be entitled to receive 700,000 shares in the Company (or their equivalent value in cash) on completion of his three-year contract (i.e. 30 November 2006). The final number of shares (or cash amount) delivered may be adjusted to reflect relevant changes (if any) in the Company's share capital after his appointment. This ensures that the CEO's compensation is closely tied to the Company's longer-term performance and aligns his interests with those of shareholders. In certain limited circumstances, the CEO may be entitled to receive some or all of the shares (or the cash amount) prior to completion of his contract.

The restricted shares were offered in order to provide a sufficiently competitive level of compensation and to ensure the CEO's total pay is more closely tied to the performance of the Company.

### B Share options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2003 are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

#### (i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme"), Jack C K So (ex-Chairman) and each of the other Members of the Executive Directorate, except C K Chow and Lincoln K K Leong, were granted options on 20 September 2000 to acquire 1,599,000 and 1,066,000 shares respectively. C K Chow and Lincoln K K Leong joined the Company on 1 December 2003 and 1 February 2002 respectively and are not beneficiaries of the Pre-IPO Option Scheme.

Under the vesting terms of the Pre-IPO Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 40,000 shares in the case of the ex-Chairman and at least 23,000 shares in the case of other Members of the Executive Directorate, and (ii) at all times after 26 October 2002, at least 80,000 shares in the case of the ex-Chairman and at least 46,000 shares in the case of other Members of the Executive Directorate.

#### (ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme ("New Option Scheme"), Lincoln K K Leong, a Member of the Executive Directorate, was granted option to acquire 1,066,000 shares on 1 August 2003.

The options will be vested in three equal annual instalments and under the vesting terms of the New Option Scheme, the grantee must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares.

### 3 Segmental information

The results of major business activities are summarised below:

in HK\$ million	Turnover		Contribution to profit	
	2003	2002	2003	2002
				(Note 1)
Railway operations	5,489	5,720	345	577
Station commercial and other businesses	1,117	979	657	688
Property ownership and management	988	987	786	819
Property developments	–	–	5,369	3,755
	<b>7,594</b>	<b>7,686</b>	<b>7,157</b>	<b>5,839</b>
Corporate expenses net of other income			(2,707)	(2,260)
Profit for the year			<b>4,450</b>	3,579

No geographical analysis is shown as substantially all the principal activities of the Company and its subsidiaries are carried out in Hong Kong.

### 4 Fixed assets and railway construction in progress

#### A Fixed assets

in HK\$ million	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2003	10,267	1,638	45,092	52,519	2,454	111,970
Additions	3,626	52	–	66	1,148	4,892
Disposals/Write-offs	–	–	(11)	(265)	(4)	(280)
Surplus/(Deficit) on revaluation (Note 6)	276	(23)	–	–	–	253
Deficit on revaluation written off to Profit and Loss Account	–	(69)	–	–	–	(69)
Reclassification	–	–	268	(268)	–	–
Other assets commissioned	–	–	391	2,267	(2,658)	–
At 31 December 2003	14,169	1,598	45,740	54,319	940	116,766
At Cost	–	731	45,740	54,319	940	101,730
At 31 December 2003 Valuation	14,169	867	–	–	–	15,036
Aggregate depreciation						
At 1 January 2003	–	84	2,324	15,292	–	17,700
Charge for the year	–	35	374	1,993	–	2,402
Written back on disposal	–	–	(3)	(233)	–	(236)
Written back on revaluation (Note 6)	–	(21)	–	–	–	(21)
Reclassification	–	–	10	(10)	–	–
At 31 December 2003	–	98	2,705	17,042	–	19,845
<b>Net book value at 31 December 2003</b>	<b>14,169</b>	<b>1,500</b>	<b>43,035</b>	<b>37,277</b>	<b>940</b>	<b>96,921</b>
Net book value at 31 December 2002	10,267	1,554	42,768	37,227	2,454	94,270

#### B Railway construction in progress

in HK\$ million	Balance at 1 Jan 2003	Transferred from deferred expenditure	Expenditure/(Government grant)	Balance at 31 Dec 2003
<b>Tseung Kwan O Extension Further Capital Works Project</b>	<b>43</b>	<b>–</b>	<b>1</b>	<b>44</b>
<b>Penny's Bay Rail Link Project</b>	<b>285</b>	<b>–</b>	<b>598</b>	<b>883</b>
Government grant	(219)	–	(664)	(883)
	<b>66</b>	<b>–</b>	<b>(66)</b>	<b>–</b>
<b>Tung Chung Cable Car Project</b>	<b>–</b>	<b>17</b>	<b>120</b>	<b>137</b>
<b>Total</b>	<b>109</b>	<b>17</b>	<b>55</b>	<b>181</b>

#### 4 Fixed assets and railway construction in progress (continued)

During the year, cash dividends waived by the Government amounting to HK\$675 million (2002: HK\$219 million) have been offset against the construction costs of Penny's Bay Rail Link Project. The excess of the cash dividends waived over the construction costs amounting to HK\$11 million (2002: Nil) has been included in creditors, accrued charges and provisions.

#### 5 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2002 and 2003 comprise:

in HK\$ million	2003		2002	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	3,099	3,091	–	–
HK dollar retail bonds	–	–	3,500	3,553
	<b>3,099</b>	<b>3,091</b>	3,500	3,553

The net proceeds from the above issues were used for general working capital, refinancing or other corporate purposes.

During the year, the Group redeemed HK\$500 million (2002: Nil) unlisted Hong Kong dollar notes upon maturity.

#### 6 Reserves

in HK\$ million	Share premium	Capital reserve	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
<b>2003</b>						
Balance as at 1 January 2003 as previously reported	1,563	27,188	6,406	24	16,487	51,668
Prior period adjustment in respect of deferred tax	–	–	–	–	(3,253)	(3,253)
Balance as at 1 January 2003 as restated	1,563	27,188	6,406	24	13,234	48,415
Employee share options exercised	78	–	–	–	–	78
Shares issued under Scrip Dividend Schemes	968	–	–	–	–	968
Dividends paid	–	–	–	–	(2,178)	(2,178)
Surplus/(Deficits) on revaluation, net of deferred tax	–	–	276	(6)	–	270
Profit for the year	–	–	–	–	4,450	4,450
Balance as at 31 December 2003	<b>2,609</b>	<b>27,188</b>	<b>6,682</b>	<b>18</b>	<b>15,506</b>	<b>52,003</b>
<b>2002</b>						
Balance as at 1 January 2002 as previously reported	564	27,188	6,518	116	14,407	48,793
Prior period adjustment in respect of deferred tax	–	–	–	–	(2,620)	(2,620)
Balance as at 1 January 2002 as restated	564	27,188	6,518	116	11,787	46,173
Employee share options exercised	33	–	–	–	–	33
Shares issued under Scrip Dividend Schemes	966	–	–	–	–	966
Dividends paid	–	–	–	–	(2,132)	(2,132)
Deficit on revaluations	–	–	(112)	(92)	–	(204)
Profit for the year (as restated)	–	–	–	–	3,579	3,579
Balance as at 31 December 2002	1,563	27,188	6,406	24	13,234	48,415

#### 7 Other information

This summary financial statements is only a summary of information in the Group's 2003 Annual Accounts. It is not the Group's statutory financial statements and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report and Accounts. The full 2003 Annual Report is available in electronic form on the Company's website at [www.mtr.com.hk](http://www.mtr.com.hk). A printed copy of the 2003 Annual Report can be obtained free of charge by writing to the Company's share registrar or the Company's Corporate Relations Department. Their details are listed in the inside back cover of this Summary Report.

# Auditors' statement on the summary financial report

## To the shareholders of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have examined the summary financial report of MTR Corporation Limited for the year ended 31 December 2003 on pages 1 to 27 and the front and back cover pages.

## Respective responsibilities of directors and auditors

Under the Hong Kong Companies Ordinance, the directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2003, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion solely to you, as a body, and we are also required to state whether the auditors' report on the annual accounts for the year ended 31 December 2003 is qualified or otherwise modified, in accordance with section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this statement.

## Basis of opinion

We conducted our engagement in accordance with Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Society of Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2003, and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

## Opinion

Based on the foregoing, in our opinion the summary financial report on pages 1 to 27 and the front and back cover pages:

- (a) is consistent with the annual accounts and the auditors' report thereon and the report of the Members of the Board of MTR Corporation Limited for the year ended 31 December 2003 from which it is derived; and
- (b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of MTR Corporation Limited for the year ended 31 December 2003 and have issued an auditors' report thereon dated 2 March 2004 which is unqualified or otherwise unmodified.

KPMG  
Certified Public Accountants  
Hong Kong, 2 March 2004

# Key shareholder information

## Financial calendar 2004

Announcement of 2003 results	2 March
Last day to register for 2003 final dividend	25 March
Book closure period	26 March to 2 April
Annual General Meeting	3 June
2003 final dividend payment date	On or about 30 June
Announcement of 2004 interim results	August
2004 interim dividend payment date	October
Financial year end	31 December

## Registered office

MTR Corporation Limited  
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong  
Telephone: (852) 2993 2111 Facsimile: (852) 2798 8822

## Website

[www.mtr.com.hk](http://www.mtr.com.hk)

## Share information

### Listing

MTR Corporation Limited's shares are listed on The Stock Exchange of Hong Kong. In addition, shares are traded in U.S.A. through an American Depository Receipt (ADR) Level 1 Programme sponsored by JP Morgan Chase Bank. The shares are also quoted on the London SEAQ International System.

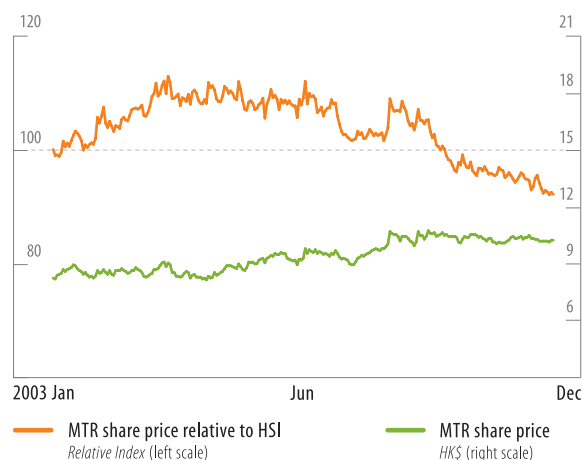
### Ordinary shares (as at 31 December 2003):

Shares outstanding: 5,288,695,393 shares  
Hong Kong SAR Government shareholding: 4,036,430,908 shares (76.32%)  
Free float: 1,252,264,485 shares (23.68%)

**Nominal value** HK\$1 per share

**Market capitalisation (as at 31 December 2003):** HK\$54,209 million

## Share price performance



## Dividend policy

Subject to the financial performance of the Company, we expect to pay two dividends each financial year with interim and final dividends payable around October and June respectively, with the interim dividend representing approximately one third of the total dividends to be paid for the entire year.

## Dividend per share (in HK\$)

2002 Final Dividend	0.28
2003 Interim Dividend	0.14
2003 Final Dividend	0.28

## ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depository Bank	JP Morgan Chase Bank 40th Floor, One Chase Manhattan Plaza New York, NY 10081 USA

## Index Constituent

MTR Corporation Limited is a constituent of the following indices:

Hang Seng Index Series  
MSCI Index Series  
FTSE All-World Hong Kong Index  
FTSE4Good Index  
Dow Jones Sustainability Index  
Ethisel Stock Index

## Stock codes

### Ordinary shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK
CUSIP Reference Number	Y5896Y104
Sedol Reference Number	6290054

**ADR Level 1 Programme** MTRUY

## Annual report 2003

Our annual report is available in both English and Chinese. Shareholders can obtain copies by writing to: Computershare Hong Kong Investor Services Limited, Rooms 1901–1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

If you are not a shareholder, please write to: Corporate Relations Department, MTR Corporation Limited  
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website at [www.mtr.com.hk](http://www.mtr.com.hk)

## 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:

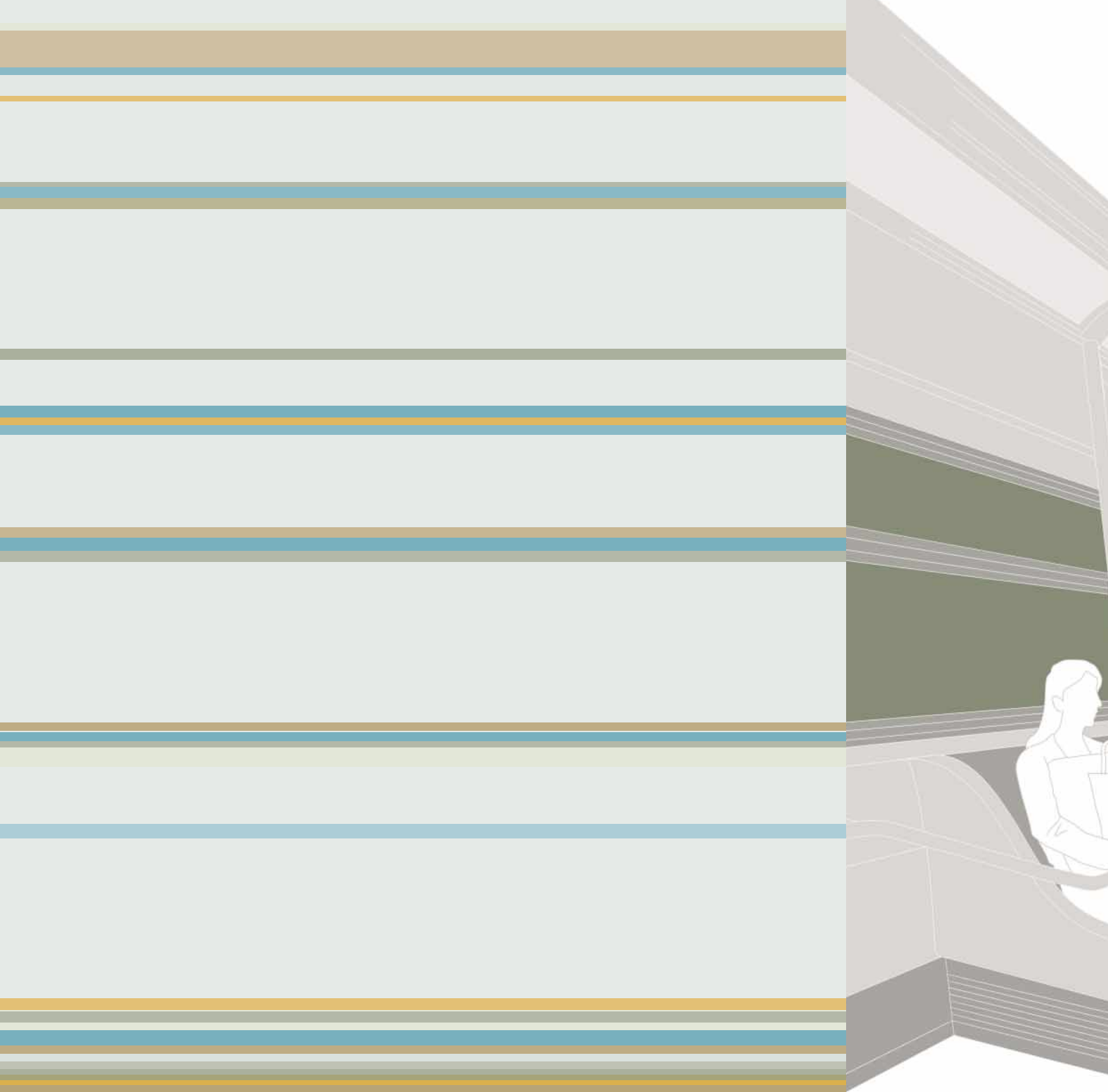
Computershare Hong Kong Investor Services Limited, Rooms 1901–1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong  
Telephone: (852) 2862 8628 Facsimile: (852) 2529 6087

## Shareholder enquiries

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:  
Corporate Finance Department, MTR Corporation Limited  
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong  
Email: [investor@mtr.com.hk](mailto:investor@mtr.com.hk)



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