

Executive management's report





Improving market share

Station and service improvements

Continued efficiency and productivity gains

Record high patronage

Inter-modal links

25th anniversary promotions

railway operations

moving ahead with Hong Kong

- > Total fare revenues for MTR Lines and AEL increased 8.1% to HK\$5,932 million, on strong rebound in patronage post SARS
- > Successful opening of new facilities at Tsim Sha Tsui Station for interchange with East Rail Extension
- > Achieved all Operating Agreement Performance Requirements and Customer Service Pledge targets

The recovery from the outbreak of SARS saw the Company's core Hong Kong railway operations resume steady growth as MTR continued to upgrade the network environment to enhance passenger comfort and safety.

Patronage

After the severe impact of SARS on our ridership in 2003, passenger numbers for 2004 experienced a strong rebound, rising by 8.3% as economic and social activities in Hong Kong returned to normal. Use of the network was further supported by a sharp increase in inbound tourists from the Mainland. In addition, the opening of West Rail in December 2003 and the interchange facilities at Nam Cheong and Mei Foo stations generated further increases in patronage and more than compensated for the slight loss of patronage resulting from the opening of KCRC's East Tsim Sha Tsui Station in October.

For the year, the MTR Lines recorded total passenger volume of 834 million, against 770 million in 2003. This year, we also saw the highest record on a single, regular 19-hour service day with patronage volume of 2.72 million on 17 December, as well as a record Christmas Eve patronage of 3.38 million passengers. Our passenger volume represents a 24.8% share of the



Effective asset management and a robust maintenance regime are important to us

total franchised public transport market, higher than that of 2003. Within this total, the Company also increased our share of cross-harbour traffic to 59.6%. Fare revenues from operations rose 7.0% to HK\$5,417 million from HK\$5,064 million.

On AEL, passenger volume rose by 17.0% to 8.0 million. The average fare rose from HK\$62.07 in 2003 to HK\$64.25. Fare revenues rose by 21.2% to HK\$515 million. Despite the growth in passenger volume, AEL's estimated market share of 21% was slightly lower than in 2003, reflecting a change in the mix of visitors arriving at and departing from Hong Kong's airport.

Service promotion

MTR's 25th Anniversary provided a strong platform on which to raise brand awareness and promote patronage to specific demographic groups. Beginning in April, the Company launched a series of anniversary celebration campaigns, highlighted by a special anniversary theme train running on the Tsuen Wan Line.

A thematic campaign with a series of three TV commercials reinforced the message that MTR is not only an integral part of Hong Kong's transport system but

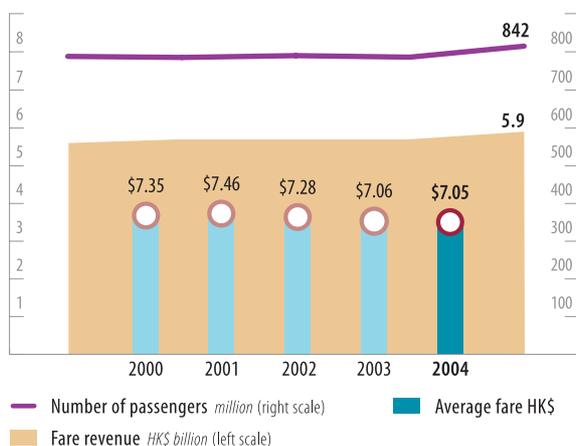
connects with people's everyday life. This was supplemented by a series of 20 one-minute TV segments using interesting statistics to highlight MTR's outstanding services. MTR also participated in the "Hong Kong Superbrands" programme series produced by TVB Jade, which showcased the Company's contribution to the community over the decades. More directly, Hong Kong Station was decorated with a birthday theme, and a lucky draw was conducted to draw additional public interest. Special 25th Anniversary ticket sets were produced, as well as other 25th Anniversary supplements.

More generally, we continued to run fare campaigns which emphasised the value for money offered by MTR services. Popular schemes included "Ride 10 Get 1 Free", which was slightly revised in October 2004, and a relaunched "\$2 Holiday Ride" promotion for children and elderly citizens on Sundays and major public holidays, to promote family travel. Five new fare saver machines were added at locations which would help increase utilisation of MTR and five intermodal discount promotions were launched to attract feeder patronage.

An online shopping service on the MTR website was added to the number of channels for distribution of MTR souvenirs and Airport Express tickets, while the extended MTR Club "WOW Fun Scheme" successfully promoted network patronage and shopping at MTR managed shopping centres.

Promotions were also stepped up for AEL. Increased service frequency, from four trains to five trains an hour, was advertised through a large-scale marketing campaign. Three festive promotional campaigns boosted incremental revenue, notably the group ticket plus free child ride during the summer months.

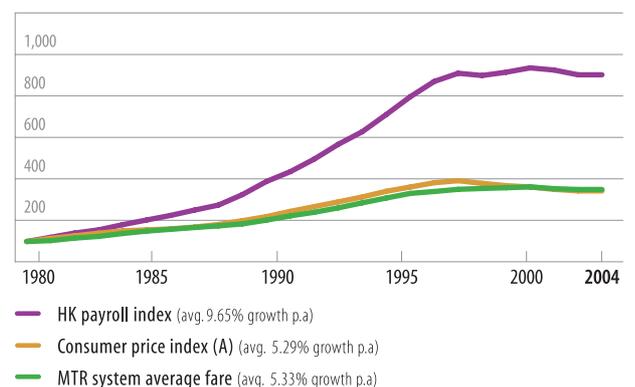
For overseas markets, awareness was enhanced by participating in TV programmes in the Mainland and the launch of online advertising in key markets including the Mainland, Japan and Korea. AEL launched a "Customer Service Ambassadors" programme to establish a continuous presence in the airport arrival area, as well as online ticketing to secure pre-arrival sales of AEL tickets, especially in Taiwan, US and UK. MTR also for the first time partnered with Cathay Pacific Airways to pre-sell tickets



Passengers and fares

The economic rebound boosted fare revenue and passenger numbers to record high.

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Fare trend

MTR's ability to control costs again delivered a value for money service.