

in-flight. Marketing partnerships continued with the Asia Miles frequent flyer programme and the Hong Kong Tourism Board.

Service performance

The Company recognises that excellence in service delivery is crucial to our success in being a pre-eminent public transport provider. During the year, We maintained our very high standards of reliability, safety, comfort, and customer satisfaction.

Regrettably, a number of noticeable, but not safety critical, incidents in the final months of the year caused some delays and inconvenience to passengers, giving rise to public concerns over the reliability of the Company's systems. In an effort to understand the root causes of these incidents and address passenger concerns, MTR established an internal task force of senior management and technical experts to investigate these occurrences, and commissioned an independent review of our railway processes and assets by Lloyd's Register

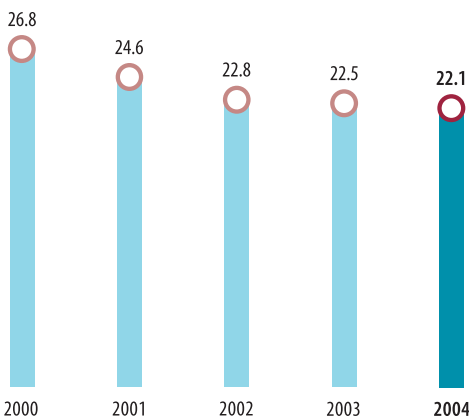
Rail, a leading international rail expert and validation agency. Following the conclusion of the investigation by the internal task force in November, the Company began implementation of a series of improvement initiatives to augment our robust maintenance regime and incident handling procedures. These include:

- Increasing inspection of key railway systems
- Adopting technology from outside the railway industry
- Using higher-standard components newly available in the market
- Accelerating the programme for certain equipment and parts replacement
- Rapid deployment of staff at stations during train service disruptions
- Improving communication with passengers in case of disruptions.

These measures aim at further strengthening MTR's ability to reduce the chance of equipment failures that could affect train service and cause delays, and minimising inconvenience to passengers in the event of a delay.

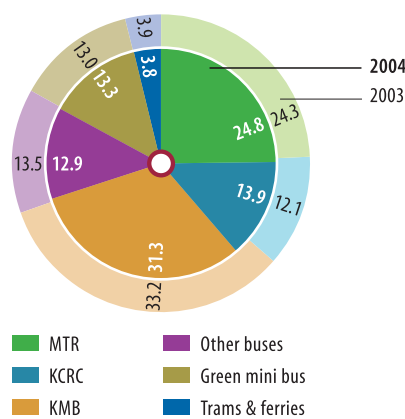
The Lloyd's Register Rail report was delivered in February 2005. The conclusions were that MTR service performance has seen significant improvement since 2001 and that best practice asset management was in place across the Company. We will implement the recommendations put forward in the report. These include enhancements to the processes for the introduction of new lines and facilities to minimise any impact to service delivery, as well as improvements to our asset management systems, including IT systems, to cater for higher customer sensitivity and improve the quality of the journey for our customers.

Our Asset Management Policy stipulates that MTR is committed to the efficient and effective management of our railway assets to ensure that the Operating Agreement and all relevant statutory requirements are complied with. This is achieved through continuous improvement of the asset management processes under the principles of minimising the life cycle costs of assets, maximising their worth to the business and managing the associated risks.



Railway operating costs per car km operated
Continued improvements in efficiency and productivity led to further cost savings.

Percentage



Market shares of major transport operators in HK
MTR's value for money services and improved connectivity with other modes of transport helped increase market share.



Despite the attention given to these incidents of delay and concern to passengers, for 2004 as a whole the Company continued to exceed the minimum performance levels required by the Government under the Operating Agreement, and the more stringent Customer Service Pledges established by MTR itself in every area. For the year, MTR passenger journeys on time were 99.9%, supported by 99.9% reliability for train service delivery. Escalator reliability was 99.9%, with the average machine out of service for about half-an-hour per month. Excellent performance was also recorded in key areas which affect passenger comfort such as temperature, ventilation and cleanliness.

Levels of customer satisfaction recorded during the year by our regular survey remained generally high. In 2004, the Service Quality Index for the MTR Lines and AEL stood at 71 and 82 respectively on a 100-point scale. MTR also again performed well according to the 11-member Community of Metros (CoMET) benchmarking report, in the areas of safety, service quality and passenger cost. In addition, MTR won the Top Service Award 2004 – Public Transport from Hong Kong's *Next Magazine*, the sixth year in a row the Company has achieved this recognition.

The effectiveness of MTR's crisis response was demonstrated in January, when the first ever arson attack took place on an

New entrances, such as that at Mong Kok Station, are giving a bright, modern appearance to stations

Urban Line train. The incident was resolved quickly and caused no injury to either passengers or personnel thanks to the rapid and effective response of MTR staff and the calm reaction of passengers. In recognition of their exemplary performance in handling of the incident, the MTR employees involved were presented with commendation letters by the Secretary for Environment, Transport and Works, on behalf of the Government.

Despite the incident, MTR was able to maintain a high level of safety performance throughout 2004 and all safety targets set out in the Corporation Safety Plan were achieved. The incident nonetheless highlighted the importance of safety to MTR train operations and service and throughout the year, the Company continued our efforts to promote safe behaviour when travelling on MTR. Educational activities and campaigns were launched, including a Safety Web Game that highlighted MTR's safety messages in an easy to understand and attractive way, a Safety Carnival and a one-month safety campaign.

Service improvements

The year saw further improvements to MTR's infrastructure and services.

In April, a new entrance at Kowloon Tong Station connecting the station with the new concourse of KCRC's Kowloon Tong Station was opened. In September, MTR also opened a new subway system passing underneath Mody Road connecting Tsim Sha Tsui Station with the KCRC's East Tsim Sha Tsui Station. These developments enhanced the ease of access to the KCRC and MTR networks and of passenger transfer between them.

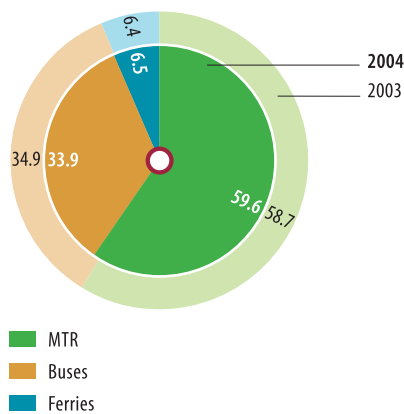
MTR's interchange with the East Rail is part of a wider strategy to promote patronage through improved linkage with other modes of transport. 2004 saw the extension of inter-modal fare discounts to 14 feeder routes for travellers transferring to MTR from feeder buses on three New Lantao Bus routes, ten Green Minibus routes and one cross-border bus route. To enlarge the catchment area, the number of fare saver machines offering discounts to Octopus card holders at locations some distance from MTR stations was increased to 15 in 2004.

Projects to improve barrier free movement in stations continued in 2004 with new passenger lifts installed at Central, Tin Hau and Sai Wan Ho stations. At Tsim Sha Tsui Station, three new escalators were installed and opened in March for public use at a refurbished entrance leading to Humphreys Avenue.

The project to retrofit platform screen doors at all 30 underground stations, which began in early 2002 and is scheduled for completion in March 2006, remained on schedule. At the end of 2004, these doors were in operation on 56 of the 74 platforms involved in 22 stations. This means that the project was completed on the Tsuen Wan Line and for all stations on the Kwun Tong Line between Yau Ma Tei and Wong Tai Sin. The project was also completed between Sheung Wan and Causeway Bay stations, and at North Point Station, on the Island Line.

All of the new facilities, entrances and improved maintenance and service delivery regimes were introduced with no increase in manpower levels.

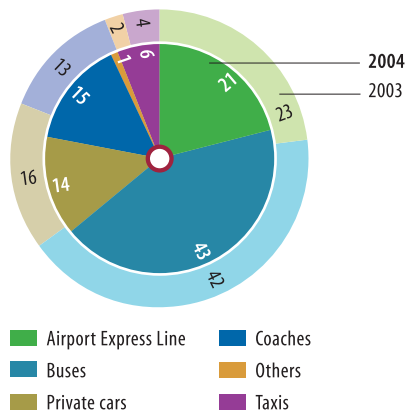
Percentage



Market shares of major transport operators crossing the harbour

Speed and convenience were among the key attributes leading to improved cross-harbour market share.

Percentage



Market shares of major transport operators to/from the airport

AEL's estimated market share dropped slightly, partly due to a change in the mix of visitors arriving at and departing from the airport.



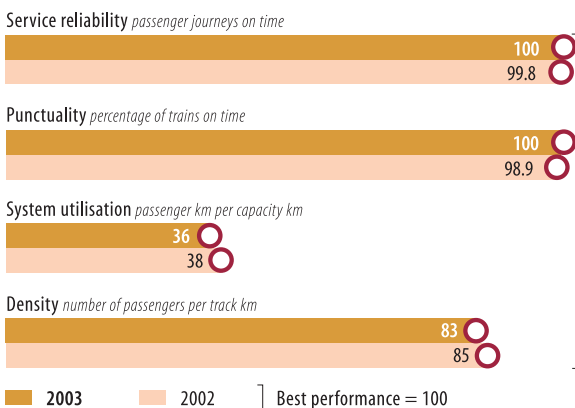
Octopus Card Enquiry Machines in stations allow passengers to check their balances, adding to convenience

Productivity increases

The continuing hiring freeze and increased outsourcing helped MTR to raise productivity during the year, as did several other initiatives which aimed at creating efficiencies. Airport Railway stations assumed responsibility for AEL car park management at Hong Kong, Kowloon and Tsing Yi stations after the expiry of management contracts, and this has led to marked productivity gains. More effective utilisation of non-traffic hours was achieved through the introduction of a new computer system to facilitate booking, confirmation and cancellation of possessions and pedestrian access works on tracks.

As a result of these productivity gains, operating costs per car km decreased 1.8% in 2004 to HK\$22.1. Since 1998, operating costs per car km has decreased by 24.3%.

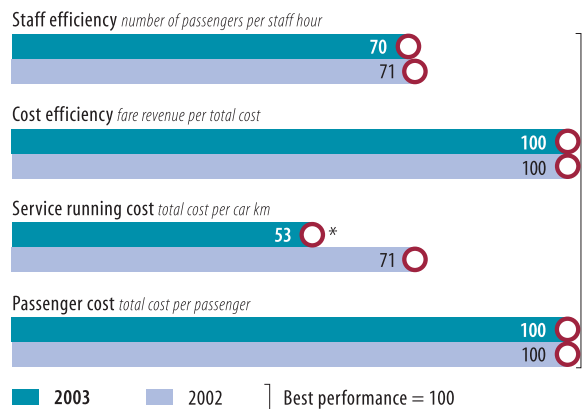
MTR performance vs. best performance



Benchmarking comparisons

MTR again performed well against international benchmarks, particularly on service reliability and punctuality.

MTR performance vs. best performance



Staff efficiency and financial performance

A hiring freeze and other productivity initiatives resulted in further gains in efficiency.

* the leading metro improved its costs significantly

System and market information

Railway operation data	2004		2003	
Total route length <i>in km</i>	87.7		87.7	
Number of rail cars	1,050		1,050	
Number of "e-Instant Bonus" machines in stations	18		18	
Number of station kiosks and mini-banks in stations	515		490	
Number of poster advertising media in stations	14,863		14,328	
Number of advertising media in trains	13,072		13,072	
Daily hours of operation	19		19	
Minimum train headway <i>in seconds</i>	Morning peak	Evening peak	Morning peak	Evening peak
– Tsuen Wan Line	128	144	128	144
– Kwun Tong Line	128	144	128	144
– Island Line	128	156	128	156
– Tseung Kwan O Line	160	180	160	180
– Tung Chung Line				
Hong Kong – Tung Chung	480	600	480	600
Hong Kong – Tsing Yi	240	300	240	300
– Airport Express Line	720	720	900	900

International performance comparisons: The 11-member Community of Metros (CoMET)

Metro system network data (2003)	MTR* Lines	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J
Passenger journeys <i>in million</i>	770	458	948	1,375	602	3,201	1,384	1,248	400	507	2,074
Car kilometres <i>in million</i>	113	129	482	331	149	641	539	218	94	88	255
Route length <i>in km</i>	80	153	408	201	227	276	471	212	115	58	183
Number of stations	49	170	275	147	190	155	424	297	66	52	138

* The Airport Express Line is excluded from metro benchmarking

Note: The other metros in the comparison are Berliner Verkehrsbetriebe, London Underground Limited, New York City Transport, Sistema de Transporte Colectivo, Regie Autonome de Transports Parisiens Metro, Regie Autonome de Transports Parisiens Regional Express Railway, Metroplitano de Sao Paulo, Tokyo Metro, Moscow Metro and Metro de Madrid. The benchmarking agreement prohibits specifically identifying the data by metro system.

Operations performance in 2004

Service performance item	Performance Requirement	Customer Service Pledge target	Actual performance in 2004
Train service delivery	98.5%	99.5%	99.9%
Passenger journeys on time			
– MTR Lines	98.5%	99.5%	99.9%
– Airport Express Line	98.0%	99.0%	99.9%
Train punctuality			
– MTR Lines	98.0%	99.0%	99.7%
– Airport Express Line	98.0%	99.0%	99.9%
Train reliability: train car-km per train failure causing delays \geq 5 minutes	N/A	500,000	1,027,233
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	8,000	10,125
Add value machine reliability	95.5%	98.0%	99.4%
Ticket issuing machine reliability	93.0%	98.0%	99.5%
Ticket gate reliability	97.0%	99.0%	99.8%
Escalator reliability	98.0%	99.0%	99.9%
Passenger lift reliability	98.5%	99.0%	99.8%
Temperature and ventilation			
– Trains: to maintain a cool, pleasant and comfortable train environment generally at a temperature at or below 26°C	N/A	97.0%	99.9%
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for stations concourses, except on very hot days	N/A	90.0%	99.3%
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	100%
– Train body: washed every 2 days	N/A	98.0%	99.9%
Passenger enquiry response time within 7 working days	N/A	99.0%	99.9%