

Executive management's report
Railway operations

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MTR CORPORATION LIMITED

The increase in patronage reflected our expanding railway network in Hong Kong, with a full year contribution from the Disneyland Resort Line and the AsiaWorld-Expo Station

MOVING FORWARD



MAIN IMAGE Patronage on MTR Lines hit another record

LEFT Levels of customer satisfaction remained high



Total fare revenue from MTR Lines and Airport Express for 2006 increased by 3.8% to HK\$6,523 million. Fare revenue was driven higher by further growth in patronage from both economic expansion and the full year impact of the opening of the Disneyland Resort Line (DRL) and the AsiaWorld-Expo (AWE) Station. The increase was also supported by higher average fares for the MTR Lines, due to the full year effect of changes in certain promotional schemes in 2005 and the positive impact on average fares from the DRL.

Patronage

For 2006, total patronage on the MTR Lines reached another record of 867 million, a 1.0% increase over the 858 million recorded in 2005. Average weekday patronage increased by 1.0% to 2.5 million. Our share of the total franchised public

transport market remained stable at 25%. Our share of cross-harbour traffic was also stable, at 61%. Fare revenue from MTR Lines rose to HK\$5,911 million, 3.3% higher than the HK\$5,721 million reported in 2005.

Passenger volume on the Airport Express rose 12.8% to 9.6 million in 2006, as the number of air travellers using Hong Kong International Airport continued to rise and the AWE Station that opened in December 2005 attracted more passengers. Average daily patronage rose 12.8% to 26,200 from 23,300 in 2005, and Airport Express' estimated market share of passengers travelling to and from the airport (excluding those travelling to and from the AWE Station) rose to 23% from 22% in 2005. For the year, fare revenue from Airport Express increased by 9.1% to HK\$612 million.



LEFT Friendly and professional station staff serve customers from the heart

Service promotions

One of our strengths is the effectiveness of the Company's service promotions, which raises awareness of the Company's service quality as well as supporting incremental growth in patronage.

In 2006, a number of very successful campaigns were launched. During July and September, the "Ride 10 Redeem Hello Kitty Stamps" promotion not only generated 1.2% additional patronage, but also contributed income as the stamps became a much sought-after collectible item.

In May we launched the Happy Index Promotion, which attracted over 20,000 users a day. This innovative approach also saw two TV projects during the year, a game show and sponsorship of a situation comedy, which were jointly produced with TVB Jade. These programmes helped reinforce perceptions of our customer services.

To engage MTR Club members, we conducted surveys throughout the year to solicit their suggestions and opinions. We treasure their input and advice as they are long term supporters of our service.

For the Airport Express, the increasingly popular Airport Express "Ride to Rewards" loyalty programme aimed at business travellers was enhanced with the additional option of award points from the Dragonair VISA.

To attract more local leisure travellers to the Airport Express, fare promotions including discounts on return journeys and free rides for children using Child Octopus card were offered during festive seasons. Overseas passengers, meanwhile, were offered fare discounts on tourist products through a partnership with the Hong Kong Tourism Board and the UnionPay Discover Hong Kong Club.

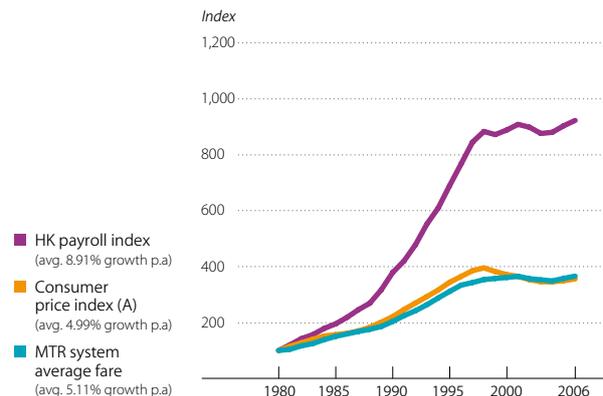
Passengers and fares

MTR again achieved record patronage and average fares also rose, yielding a 3.8% increase in fare revenue.



Fare trend

In recent years, MTR fares have consistently lagged wage growth but were in line with the long-term changes in consumer prices in Hong Kong.



An advertising campaign to increase awareness of the newly opened AWE Station was launched in July. This was supported by special arrangements with event organisers to help their participants get to the venue using the Airport Express.

Promoting patronage through improved connectivity with other modes of transport remains important to maintaining market share, and during the year seven more feeder bus routes offering inter-modal fare discounts were added, bringing the number to 32 in total. We also introduced four new adult Octopus card holder fare saver machines, resulting in a total of 20 in service by the end of 2006.

The Company's marketing, branding and passenger awareness efforts achieved considerable recognition during the year. We won the "Top Ten Most Popular TV Commercials Award" and "Most Impressive TV Commercial" in the 12th Annual Most Popular TV Commercial competition hosted by ATV. The Company took the "Prime Awards for Brand Excellence 2006 – Transport Services" awarded by *Prime Magazine*, and the "Hong Kong Brands – Classic" award jointly presented by *East Week* magazine and Sing Tao Publishing. In addition, MTR Corporation's print campaign on train boarding safety was voted one of Hong Kong's Top Ten Print Advertisements in the "Metro Global Print Awards 2006" organised by *Metropolis Daily*.

Service performance

MTR Corporation's operating performance was again underpinned by very high standards of reliability, safety, passenger comfort and customer satisfaction.

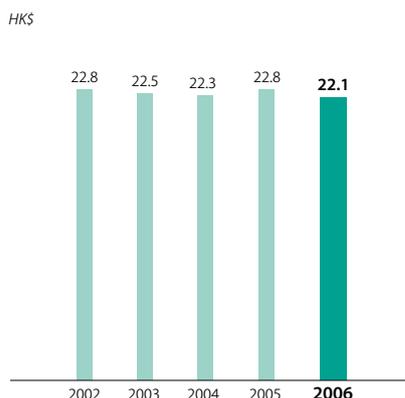
For the sixth consecutive year, the Company exceeded, in every area, both the minimum performance levels required by the Government under the Operating Agreement, and our own more stringent Customer Service Pledges. For the year, passenger journeys on time for MTR Lines were 99.9%, supported by 99.9% reliability for train service delivery and 99.7% train punctuality. We continue to improve the time taken for recovery of service in order to minimise the impact to passengers where there are occasional service disruptions.

To improve our passenger service further, "Year of the Customer" and "We serve from the heart" campaigns were launched during the year. Training for our station staff and platform assistants enabled them to understand the feelings and needs of our passengers better, while passengers were invited to elect the Best Station Operator. These campaigns were supplemented by others which promote escalator and train door safety.

BELOW Reliable and easy-to-use equipment installed in stations

Railway operating costs per car km operated

Operating cost per car kilometre fell as maintenance costs were held steady despite the opening of new lines.



Levels of customer satisfaction recorded during the year by our regular survey also remained high. In 2006, the Service Quality Index for the MTR Lines and Airport Express stood at 71 and 81 respectively on a 100-point scale. In addition, the Company continued to maintain a leading position in the international benchmarking performed by the 12-member Community of Metros (CoMET), in the key areas of customer service, service reliability and cost efficiency.

Our service performance in many areas again received recognition through numerous awards. In Hong Kong, the Company won *East Week* magazine's "Quality Living Award HK 2006" – Public Transport Category for the second consecutive year and, for the eighth year in a row, *Next Magazine's* "Top Service Award 2006" – Public Transport Category.

To ensure continued excellence and effectiveness of safety delivery and meet the requirements of the Operating Agreement, our fifth External Safety Management System Review was undertaken by an independent urban transportation safety organisation, the American Public Transportation Association. The review used a professional Rail Safety Audit Programme developed specifically for auditing rail operations. The results of the review were highly satisfactory, revealing that eight of the Company's safety practices were considered by the auditors as "industry leading effective practices" and 141 observations as "industry effective practices". The review provided assurance that the Company has not only successfully fulfilled both MTR and industry safety requirements, but is also in many areas a leader in safety management among rail operators worldwide.

Service improvements

Improvements to train services and network infrastructure continued to ensure that the MTR network remains at the forefront of public transport in Hong Kong.

Station and rail

The programme to retrofit platform screen doors at all 74 platforms in underground stations was completed in the first half of 2006, marking the end of a six-year programme that has greatly improved passenger comfort and safety.

The station improvement programme, now into its ninth year, continued to ensure that the appearance and ambience of MTR stations meet the ever more demanding expectations of passengers. During the year, 38 stations underwent improvements and renovations, bringing the number of renovated stations to 46 in total since the programme started in 1998.

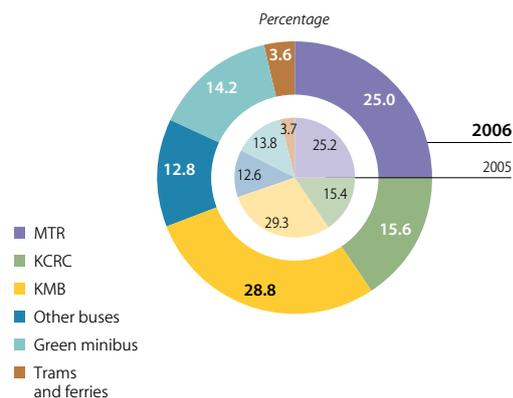
The passenger information system in stations and on trains saw a number of important enhancements. On the Tung Chung Line, information on the time to the next train was extended to ten minutes before arrival, while on Airport Express trains, a new multi-media system with audio facilities embedded in the headrests of seats began to be introduced in the middle of the year. Across the network, the centralised public announcement system and the passenger information displays were reconfigured to improve timely release of information.

BELOW Train service delivery was 99.9%, consistently achieving a very high standard



Market shares of major transport operators in Hong Kong

Despite strong competition, MTR maintained our share of the transport market in Hong Kong.



In January, a rail replacement programme to progressively upgrade the rail infrastructure in the Kwun Tong and Tsuen Wan lines was launched, which will bring an improvement to ride quality and service reliability. This programme will help extend the service life of the rails and reduce the chance of train service disruption due to rail defects.

Elsewhere during the year, access to the network was improved through completion of new pedestrian links at three stations. Choi Hung Station benefited from a new link to the Park & Ride Public Carpark and the Infinity 8 shopping centre, Kwai Fong Station saw a new entrance linking it to a footbridge to Metroplaza and Tiu Keng Leng Station received a new link to Metro Town.

Passenger trains

Since September, the train frequency of Tung Chung Line during peak periods and non-peak hours has been enhanced. By the end of the year, a total of three new trains had been commissioned.

The replacement of motor alternators on the 78 trains on the MTR Lines by state-of-the-art static inverters was substantially completed during the year. The inverters improve the energy efficiency and reliability of the trains and also reduce noise.

Access to the network and for the disabled

We have invested considerably over the years in facilities for the disabled, including passenger lifts, ramps, wheelchair aids and stair lifts to provide easy access to stations. During 2006, this enhancement of barrier free movement for passengers in stations continued across the network.



ABOVE Committed and skilled maintenance staff are crucial to the high levels of quality service delivered to passengers

New passenger lifts came into operation at Cheung Sha Wan and Sham Shui Po stations, and self-operated stair lifts at Wong Tai Sin and Prince Edward stations. A new type of escalator audible device that assists visually impaired passengers was introduced at Tsim Sha Tsui, Mong Kok, Shek Kip Mei and Kwun Tong stations, while a new induction loop that helps hearing impaired passengers was installed at all stations along the Tung Chung Line and Airport Express.

Installation of internal passenger lifts is now underway at Lai Chi Kok and Tai Wo Hau stations, while self operated stair lift installations are in progress at seven stations. These installations will be completed in 2008.

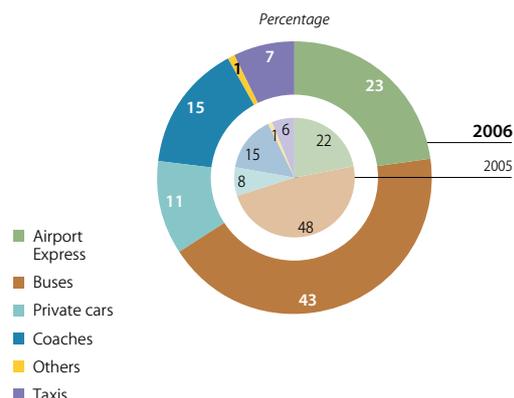
Market shares of major transport operators crossing the harbour

The Company's market share of cross-harbour traffic remained broadly stable at 61%.



Market shares of major transport operators to/from the airport

The proportion of people travelling to and from the Hong Kong International Airport on MTR continued to trend upwards.



Health and hygiene

To enhance the hygiene levels in MTR stations and trains, as well as our managed shopping malls, in September we introduced a technological innovation from Japan, known as nano silver-titanium dioxide coating. This powerful non-toxic disinfectant has been applied to commonly touched surfaces in MTR ranging from escalator and lift handrails to push buttons on ticket issuing machines, add value machines, and lifts in stations, the red portion of grab poles and strap hangers inside train compartments, as well as escalator handrails in MTR managed shopping malls. The project took three months and was completed at the end of December.

Productivity

During the year, the Company continued to examine ways to improve efficiency and productivity. For 2006, operating costs per car kilometre decreased by 3.1% to HK\$22.1. Maintenance costs were successfully contained at similar levels to 2005, even though the full-year effect of the opening of the DRL and AWE Station resulted in a 3% increase in the total revenue car kilometres operated in 2006. Corporate support costs were also lower compared to 2005.

During the year, the MTR maintenance information system was upgraded to the Enterprise Asset Management System. This enables us to optimise operational effectiveness and improve asset utilisation and performance.

System and market information

Railway operation data	2006		2005	
	Total route length <i>in km</i>	91		91
Number of rail cars	1,074		1,050	
Number of "e-Instant Bonus" machines in stations	22		18	
Number of station kiosks and mini-banks in stations	552		557	
Number of advertising media in stations	15,206		15,127	
Number of advertising media in trains	9,036		10,624	
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	140	128	144
– Kwun Tong Line	128	144	128	144
– Island Line	124	156	128	156
– Tseung Kwan O Line	160	180	160	180
– Tung Chung Line				
Hong Kong – Tung Chung	360	480	480	600
Hong Kong – Tsing Yi	240	240	240	300
– Airport Express	720	720	720	720
– Disneyland Resort Line	270	270	270	270

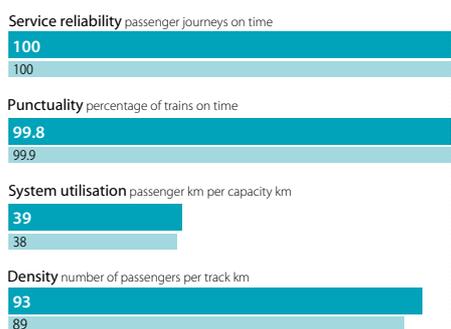
Benchmarking comparisons

We once again performed well against international benchmarks, especially in customer service and service reliability.

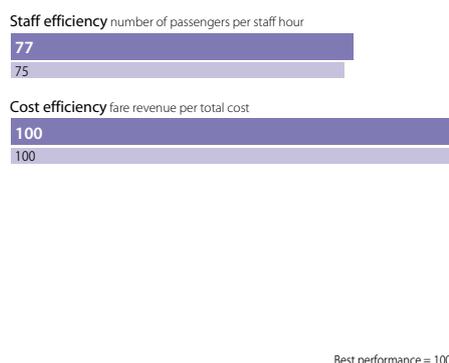
Staff efficiency and cost efficiency

New initiatives will further be introduced to enhance operating efficiency.

MTR performance vs. best performance



MTR performance vs. best performance





LEFT Passenger safety and service remained our top priority

International performance comparisons: The 12-member Community of Metros (CoMET)

Metro system network data (2005)	MTR* Lines	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J	Metro K
Passenger journeys in million	856	464	971	1,441	644	2,603	1,449	1,373	445	581	513	2,102
Car kilometres in million	114	122	492	353	155	669	540	226	98	57	90	255
Route length in km	80	153	443	201	227	278	471	212	115	75	58	183
Number of stations	50	170	275	147	190	156	424	297	66	54	52	138

* The Airport Express is excluded from metro benchmarking.

Note: The other metros in the comparison are Berliner Verkehrsbetriebe, London Underground Limited, New York City Transit, Sistema de Transporte Colectivo, Régie Autonome des Transports Parisiens Metro, Régie Autonome des Transports Parisiens Réseau Express Régional, Metropolitano de São Paulo, Tokyo Metro, Moscow Metro, Metro de Madrid and Shanghai Metro Operation Corporation. The benchmarking agreement prohibits specifically identifying the data by metro system.

Operations performance in 2006

Service performance item	Performance Requirement	Customer Service Pledge target	Actual performance in 2006
Train service delivery	98.5%	99.5%	99.9%
Passenger journeys on time			
– MTR Lines	98.5%	99.5%	99.9%
– Airport Express	98.0%	99.0%	99.9%
Train punctuality			
– MTR Lines	98.0%	99.0%	99.7%
– Airport Express	98.0%	99.0%	99.9%
Train reliability: train car-km per train failure causing delays \geq 5 minutes	N/A	500,000	1,448,915
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	8,000	14,705
Add value machine reliability	95.5%	98.0%	99.4%
Ticket issuing machine reliability	93.0%	98.0%	99.6%
Ticket gate reliability	97.0%	99.0%	99.8%
Escalator reliability	98.0%	99.0%	99.9%
Passenger lift reliability	98.5%	99.0%	99.9%
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 station concourses, except on very hot days	N/A	90.0%	99.9%
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%