

# Executive Management's Report

## Hong Kong Railway Operations

Total fare revenue for the Company in 2008 increased by 61.2% to HK\$11,467 million, largely due to increased patronage as a result of the Rail Merger. Such fare revenue also represents a slight decrease of 0.3% over the combined fare revenue of the rail and bus services of MTR Corporation and pre-merger KCRC in 2007 due to the fare reduction as a result of the Rail Merger.

### Patronage

For the year as a whole, total patronage on the Integrated MTR System increased by 56.6% to 1,485.1 million as compared to last year, due mainly to the Rail Merger.

Our Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines) recorded total patronage of 1,205.4 million for 2008, an increase of 31.6% when compared with 2007.

Passengers using the Airport Express rose 4.2% to 10.6 million in 2008, due to an increase in air travellers using Airport Express to the Airport despite a slight drop in air passengers, coupled with more passengers going to and from AsiaWorld-Expo. Passenger volume on Light Rail, Bus and Intercity was 175.6 million in 2008, an increase of 2.5% when compared with full year patronage of such services in 2007.

Our overall share of the franchised public transport market rose from 41.6% for December 2007 after the Rail Merger to 42.7% for December 2008. Our share of cross-harbour traffic rose to 63.6% from 62.5% in 2007 and our share of traffic to and from the airport rose to 24% from 23% in 2007. However our market share in the Cross-boundary business declined to 56.2% from 57.0% in 2007 due to continued strong competition.

### Service Promotions

A key driver for incremental patronage growth is the Company's highly effective service promotions. These included an integrated publicity campaign "Serving you with joy and care" and a specially designed "Happy Train" that ran on the Tsuen Wan Line from June to August.

To show the dedication of the Company to building a better community, a study programme encouraged primary students to preserve and love the environment, while a joint promotion with Hong Kong Wetland Park offered discount admission

and free rides on Light Rail and MTR Bus in the Northwest New Territories to encourage the general public to visit the park to learn about wetlands and the various habitats.

A new passenger behaviour campaign was launched in May to promote good manners and behavior in our network. Further promotions included a Hong Kong Summer Temptations campaign together with the Hong Kong Tourism Board. Two tourist guidebooks with the theme of "Explore Hong Kong by MTR" and "Hong Kong Train Tour" were developed and distributed in Hong Kong and over 30 cities in the Mainland of China.

In July and for a period of six months, we introduced fare savers for interchange passengers from outlying island ferries. In late September our Student Concessionary Fare was extended to East Rail, West Rail and Ma On Shan lines domestic services, allowing eligible students to enjoy a 50% reduction in adult fares throughout our network.

### Service Performance

A culture of continuous improvement is essential for the growth of our business in an era of intense competition. For the period from the completion of the rail merger on 2 December 2007 to 31 December 2008, we exceeded all the performance levels required by Government and our own more stringent Customer Service Pledges targets. Train service delivery, passenger journeys on time and train punctuality were 99.7% or above.

Customer satisfaction levels recorded during the year by our regular surveys remained high. In 2008, the Service Quality Index for the Domestic / Cross-boundary services and Airport Express stood at 71 and 82 respectively while the Fare Index, which measures the level of satisfaction of customers with our fares, stood at 61 and 64 respectively. In the benchmarking performed by the 12-member international Community of Metros (CoMET) for 2007, we maintained our leading position.

The excellence of our service performance levels was again recognised in the winning of numerous awards, including the "Best Metro Asia Pacific Award" at The MetroRail 2008 Awards, the "2008 Hang Seng Pearl River Delta Environmental Award" organised by Federation of Hong Kong Industries and Hang Seng Bank, and the Bronze award in the Customer Service Excellence Award 2007 organised by the Hong Kong Association for Customer Service Excellence Limited.

## Service Improvements

We continued to enhance train services and network infrastructure.

Five 7-car new trains were brought into passenger service on the West Rail Line in the fourth quarter of 2008. In addition, electric-powered rolling stock replaced the diesel-powered Beijing/Shanghai-Kowloon Through Trains in January, providing better services to passengers as well as offering benefits to the environment.

Renovation works commenced at Mongkok East Station, with 25 new commercial shops scheduled for opening in March 2009. The retrofitting of automatic platform gates for eight aboveground stations on the Island, Tsuen Wan and Kwun Tong lines began at the end of the year. A wide gate was installed at the Kwun Tong Line concourse of Kowloon Tong Station, while another wide gate was installed at Mei Foo Station Entrance D. In the first quarter of 2008, we completed the application of photocatalytic coating to all trains, buses and Airport Express shuttle buses to improve the hygiene level of our stations, trains and bus compartments.

For passengers with disabilities, we undertook the extension of the tactile guide path covering all platforms of Light Rail. Construction began at Tai Wo Hau on an external lift connecting the footbridge and street level to the station concourse, while planning for lifts at Sham Shui Po, Wong Tai Sin, Jordan, and Yau Ma Tei stations commenced and Braille maps were introduced at many stations.

## Productivity

Efficiency and productivity remained a key priority for the Company in 2008. The multi-disciplinary Rapid Response Unit was extended to the West Rail, East Rail, Light Rail and Ma On Shan lines in 2008, improving response to incidents whilst achieving cost savings of approximately HK\$1 million per annum. Ticket sorting operations were outsourced and sorting centres at Kam Sheung Road Station and Tai Wai Station were shut down.

## Supporting the Olympic Games

The Company was appointed the Olympic Games Equestrian Events Railway Passenger Services Associate. Drawing on strengths from many departments, the Company ensured spectators, athletes and their entourage travelled swiftly, safely and on time to the Equestrian events venues at Sha Tin and Beas River over the 10 days of dressage, jumping and eventing. An Equestrian Events Special Task Force was set up to ensure that the Company rose to the challenge of this special assignment.

Using additional portable ramps, station staff also helped disabled passengers enjoy smooth train journeys to Shatin to attend the Paralympic Equestrian Event from 7 to 11 September. Station lifts and stair lifts were checked to ensure that wheelchair passengers would not encounter any difficulties on the way to their events.

The Company also showed its support to the Beijing Olympic Games by sponsoring the 2008 Beijing Olympic Games Volunteers (HK Group) to travel by the Beijing-Kowloon Through Train in August.

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## Station Commercial and Rail Related Businesses

Revenue for our station commercial and rail related businesses increased by 98.1% in 2008 to HK\$3,449 million. The revenue increase was driven by rising patronage in 2008 and a robust economy, particularly in the first half of the year. The Rail Merger brought about increased scale and strengthened revenue growth as well as new business opportunities in the form of freight transportation and Duty Free shops.

### Station Retail

Station retail revenue, comprising duty free shops and kiosk rental, increased by 209.8% in 2008 to HK\$1,546 million. This increase was mainly due to the inclusion of retail shops along

the KCR Lines, particularly the 10 duty free shops serving Cross-boundary customers. Further growth was provided by increased new retail area and new rental contracts being awarded at higher rents. 45 shops were renovated at 9 stations and 18 new trades were added. With repossession of shops to facilitate renovation works, the total number of shops as at 31 December 2008 was 1,186, with such retail area totaling 51,539 square metres of which 9,510 square metres relates to Duty Free businesses. Renovation works for shops at Ngau Tau Kok, Wong Tai Sin, Tai Po Market, Kowloon, Tiu Keng Leng, Kowloon Tong, Kwun Tong, Mong Kok East stations and Lo Wu Arrival Concourse were completed by the end of the year.