

- Total fare revenues for MTR Lines and Airport Express Line combined fell marginally by 0.1% to HK\$5,720 million
- Patronage rose to 2.3 million per weekday as the Tseung Kwan O Line opened
- Exceeded all Operating Agreement and Customer Service Pledge targets



The Tseung Kwan O Line has made getting to the airport – and around Hong Kong – so much easier for the Chan family.

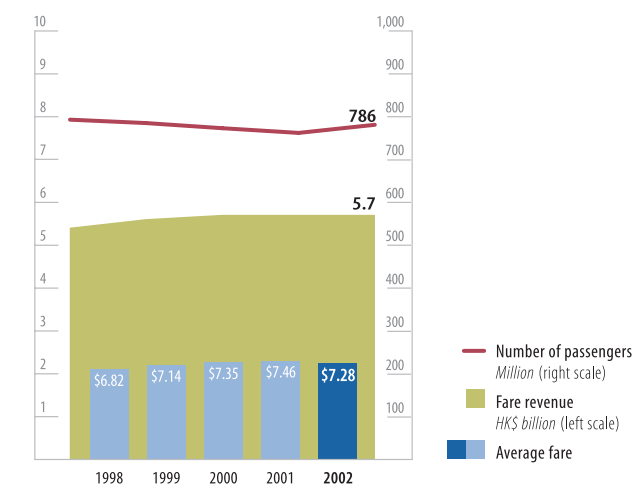
railway operations

The opening in August of the Company's fifth commuter line, the Tseung Kwan O Line, extended the MTR's safe, reliable, fast and environmentally friendly service to the residential district of eastern Kowloon. As a result, despite continued economic weakness and keen competition from buses, patronage on MTR rose, which combined with cost controls contributed to higher operating margins and profitability.

Patronage

One of the main challenges the Company faced in 2002 was to maintain ridership and revenues amid the deflationary economic environment and intense competition from buses. We achieved this through a two-pronged approach of implementing continuous service improvements to enhance rider experience and launching fare incentives to retain existing passengers and attract new ones without significantly compromising fare revenue.

The opening of the Tseung Kwan O Line in August boosted ridership in 2002 with the MTR Lines recording total passenger volume of 777 million, against 758 million in 2001. This represents a 23.5% share of the total franchised public transport market, the same as that of 2001. Within this total, the Company has increased its share of cross-harbour traffic to 58.2%. Fare revenues from operations of the MTR Lines rose marginally to HK\$5,167 million from HK\$5,164 million.



Passengers and fares

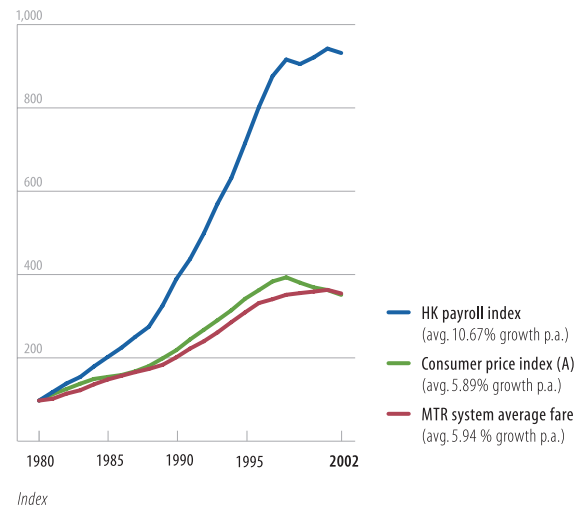
An overall rise in patronage supported increased fare revenue on MTR Lines, despite a modest decline in the average fare as we introduced new incentive schemes.

On the Airport Express Line, the discontinuation of fare discounts led, as expected, to a decline in passenger volume, which for the year fell 6.3% to 8.5 million, representing 25% of the total market. The average fare, however, rose from HK\$62.50 in 2001 to HK\$65.43 in 2002. Fare revenues were recorded at HK\$553 million, a small decrease of 2.0% from 2001.



They feel safe and sure they'll arrive on time, knowing the station supervisor is always alert to everything going on.

The screen doors keep the platform free of noise and comfortably ventilated, so it's a pleasant short wait.



Fare trend

The decision to forego a planned increase kept MTR fares affordable for the average user and in line with long-term changes in consumer prices.

A core strategy in maintaining ridership was to promote tighter and more convenient linkage between MTR and other transport services. The trial inter-modal fare discount scheme, under which passengers transferring between MTR and feeder buses are given discounted bus fares, was extended to Tung Chung, Discovery Bay, Tseung Kwan O and Kwun Tong.

We installed dedicated bus stops in Hong Kong Island's Western District for all potential MTR feeder bus routes. This initiative was carried out in conjunction with Citybus, Hong Kong's second largest bus operator, which reorganised routes so that passengers boarding in Western District for travel to Sheung Wan or Central stations could be picked up at these designated bus stops. To coincide with the opening of the Tseung Kwan O Line, dedicated feeder buses were

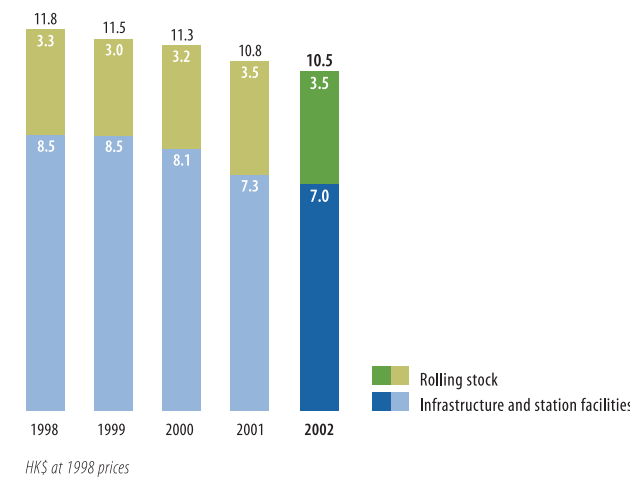
introduced on two New World First Bus "M" routes, seven Kowloon Motor Bus "M" routes and seven Green Minibus "M" routes, along with rationalised franchised bus routes and redesigned coach services. In addition, accelerated use of the Tseung Kwan O Line was encouraged through special fares at launch, with a discount offered to all passengers using the newly opened stations during the first two weeks of operation.

To provide greater incentive to passengers with longer walks to MTR stations, "Fare Saver" machines were installed in five shopping arcades each located over 500 metres from the nearest station, giving passengers a convenient way to obtain fare discounts by swiping their Octopus cards. Other fare promotion schemes also supported patronage, including a "Ride 10 Get One Free" scheme and "Ride 10 Get Café de Coral Meal" on the MTR Lines, and shareholder discounts on the Airport Express Line. On the Airport Express Line, other promotion schemes were launched, including a group ticket and concessionary offers for children, students and seniors, as well as one and three-day passes for tourists that make MTR and the Airport Express Line more convenient to use.

A six-month long service improvement trial was introduced in October for daily commuters between Tsing Yi and Central, when we inaugurated a morning express service from Tsing Yi Station to Hong Kong Station on the Airport Express Line, using the highly comfortable Airport Express trains.

Service performance

The successful opening of the Tseung Kwan O Line four months ahead of the original schedule was a major achievement in service delivery. Despite some well-publicised teething problems during



HKS at 1998 prices

Railway maintenance cost per revenue car km (in constant \$)

Outsourcing and streamlined work processes led to a further improvement in railway maintenance costs, which have fallen by 11% per revenue car kilometre since 1998.

the start-up, which were quickly resolved, the service has received much praise from our passengers and now brings in an additional 150,000 plus passengers daily to the MTR system.

Overall, we maintained our very high standards of safety, reliability, comfort, and customer satisfaction in 2002, surpassing both the minimum performance levels required by the Government under the Operating Agreement, and the more stringent Customer Service Pledges established by MTR itself. Of particular note is that MTR's safety performance has been on an uptrend for three consecutive years since 1999.

The reliability of the automatic fare collection equipment and tickets saw further improvement, while the reliability of railway and other station equipment was maintained at a high standard, ensuring punctuality and convenience for passengers. Where there was

service disruption, our staff responded swiftly to assist passengers and ensured a rapid resumption of service.

Our ability to maintain such exceptional levels of service quality whilst keeping costs under control is a remarkable achievement and directly contributed to the high levels of customer satisfaction that were again recorded during the year by our regular survey. In 2002, the Service Quality Index for the MTR Lines and Airport Express Line stood at 68 and 82 respectively on a 100-point scale, indicating that our services were held in high regard by customers. MTR also performed well again according to the 10-member Community of Metros (CoMET) benchmarking report, in the areas of safety, service quality and reliability, passenger cost and profitability.

Service improvements

MTR devotes considerable effort each year to improving its infrastructure and services in order to maintain high levels of customer satisfaction, reliability, patronage and operating efficiency.

In 2002, commissioning of a new Station Management System continued and was completed in 12 stations. The system integrates different station control equipment and systems, standardising the operator interface. This has simplified the operational process, enhanced efficiency and recovery, and reduced human errors.

The extensive station improvement project designed to create a brighter, more modern appearance to the MTR environment saw new entrances added at Wong Tai Sin and Shau Kei Wan stations,