

Executive management's report





growing stronger

Record patronage of **858 million** on the MTR Lines and higher average fares drove total fare revenue from MTR Lines and AEL **5.9%** higher to **HK\$6,282 million**

Railway operations

Total fare revenue increased by 5.9% to HK\$6,282 million, reflecting growth in patronage and higher average fare for both the MTR Lines and AEL with increases driven by sustained economic growth, the opening of DRL and continuous improvements in service quality and station environment.

Patronage

For 2005, total patronage on the MTR Lines reached a record high of 858 million, a 2.9% increase over the 834 million recorded in 2004, whilst average weekday patronage increased by 3.9% to 2.5 million. This led to an increase in our share of the total franchised public transport market to 25.2%, from the 24.8% recorded for 2004. Within this total, we increased our share of cross-harbour traffic to 61.2% from 59.6% in 2004. As a result, fare revenue on the MTR Lines rose to HK\$5,721 million, 5.6% higher than the HK\$5,417 million achieved in 2004.



"People passing by, people lazing by" – an original artwork by renowned Hong Kong ceramic artist Ms. Rosanna Li at Yau Tong Station under our art in station architecture programme

For AEL, passenger volume rose 6.0% to 8.5 million in 2005, as the number of air travellers using Hong Kong International Airport increased. Average daily patronage rose 6.4% to 23,300 from 21,900 in 2004, with our estimated market share of passengers travelling to and from the airport increasing to 22% from 21% in 2004. For the year, fare revenue at AEL rose by 8.9% to HK\$561 million from HK\$515 million in 2004.

Network expansion

The new DRL and Disneyland Resort Station, purposely built for the Hong Kong Disneyland, were opened to public on 1 August. The Sunny Bay Station at the other end of DRL which serves as interchange between Tung Chung Line and DRL was opened earlier on 1 June. The performance of DRL has exceeded reliability performance targets since its opening.

The Airport Express train service was extended to a new AsiaWorld-Expo Station to serve the new international exhibition centre at the Airport on 20 December.

Service and promotional campaigns

Programmes promoting our good customer service throughout the year helped to raise awareness of our quality service and maintain patronage growth. These included a Best Station Operator Election for each one of the 50 MTR and AEL stations, a television commercial highlighting our commitment to service quality, as well as a series of advertorials and in-station publicity.

The MTR Club was leveraged to good effect, with a new bonus point scheme to replace the "Ride 10 Get 1 Free" scheme, a major recruitment campaign accompanied by a Chinese name competition, and a Christmas Fun Day to reward loyal members. As of the end of 2005, total membership of the MTR Club had exceeded 500,000.

In addition, a major advertising campaign was launched to support the opening of DRL, including TV commercial, print advertisements, extensive publicity in stations and a special countdown display at Hong Kong Station. This was followed in December by extending sales of the specially designed DRL 1-day passes at all MTR and AEL stations.

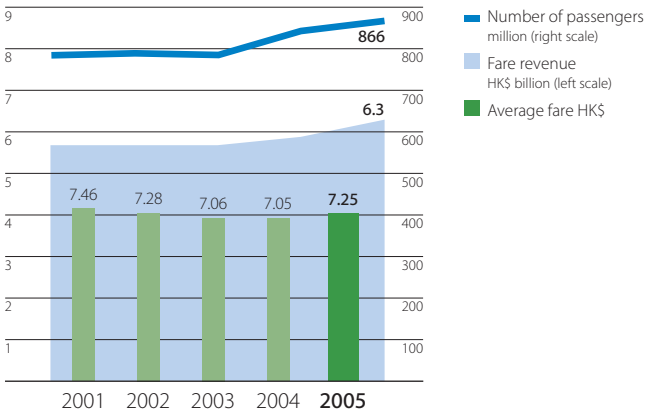
The effectiveness of the Company's advertising campaign was underlined by the "MTR – Metro News version" TV commercial winning "The Most Delightful TV Commercial Award" at ATV's 11th Annual Most Popular TV Award Presentation.

We view the strategy to promote patronage through improved linkage with other modes of transport as critically important to increasing our market share, and in 2005 we further increased the number of feeder bus routes offering inter-modal fare discounts to 25 from 14. We also increased the number of fare saver machines offering discounts to Octopus card holders at locations some distance from MTR stations by four to 19 in total.

To boost patronage and revenue for AEL among the leisure travellers, a series of Doraemon Child Ticket sets was launched during Easter, the summer months, Christmas and Chinese New Year holidays, resulting in incremental network usage.

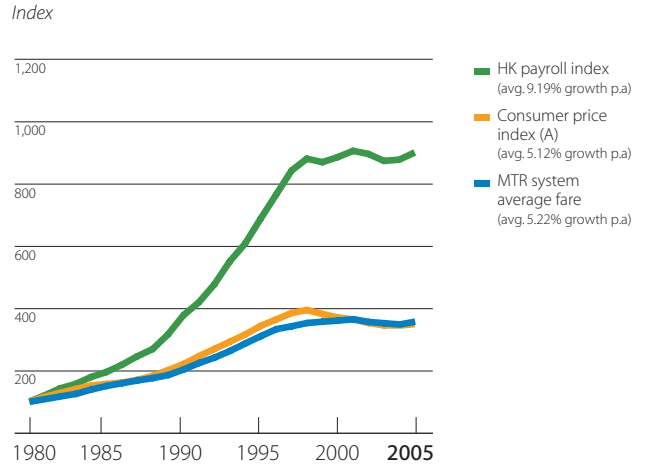
Passengers and fares

Record total MTR and AEL patronage of 866 million and higher average fares led to a 5.9% increase in fare revenue in 2005.



Fare trend

An increase in longer distance passengers and changes in promotion programmes resulted in slightly higher average fare for 2005.



A loyalty programme, the Airport Express “Ride To Rewards Programme,” was launched to target business travellers, the core target market segment of the Airport Express, and was supported by a variety of media exposure including station posters, on-line advertisements, emails to MTR Club members, a recruitment booth, InfoPanel and passenger information display system. The new programme received a favourable response, with around 9,000 members having enrolled by end of 2005.

To support the opening of the new AsiaWorld-Expo Station on AEL in December, the Company implemented a series of pre-launch activities, supported by an advertising campaign during launch to promote local and overseas usage. Special tickets were developed for sale via AsiaWorld-Expo to secure overseas pre-arrival sales.

Service performance

During 2005, MTR Corporation maintained our very high standards of reliability, safety, 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 the more stringent Customer Service Pledges established by the Company. For the year, passenger journeys on time for MTR Lines were 99.9% reliable, supported by 99.9% reliability for train service delivery. However, even with this level of reliability, due to the complex mechanical nature of our system, inevitably there are slight delays for which we extend our apologies to our passengers. With approximately 3,000 train trips running daily in our system, statistically our 99.9% reliability would still result in, say, three trains a day being delayed by five minutes or more.

Levels of customer satisfaction recorded during the year by our regular survey remained high. In 2005, the Service Quality Index for MTR and AEL stood at 71 and 81 respectively on a 100-point scale. The Company again performed well according to the international 12-member Community of Metros (CoMET) benchmarking report, in the areas of service reliability, asset utilisation and cost efficiency.

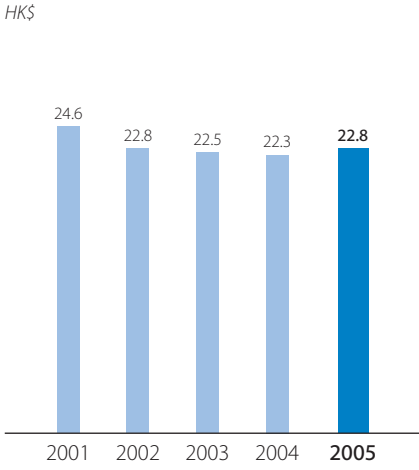
As in previous years, MTR Corporation received numerous awards for our customer service quality, leadership and management success from within and outside of Hong Kong. In Hong Kong, the Company won *East Week Magazine's* first ever “Quality Living Award HK 2005” – Public Transport Category and, for the seventh year in a row, *Next Magazine's* “Top Service Award 2005” – Public Transport Category.

The China Association for Quality awarded the Company its “China National Quality Management Award” for 2005, China’s highest award for quality management and customer service. Overseas, we were named runner-up of the “Robert W. Campbell Award”, jointly sponsored by the US National Safety Council and Exxon-Mobil Corporation. This award recognises companies that demonstrate leadership and excellence in business and financial performance by integrating safety, health and the environment into their operations.

The Company’s world class asset management system was further enhanced in 2005 following implementation of a number of improvement initiatives. Our efforts in this area were recognised by the certification body, Det Norske Veritas, an internationally respected certification body, which awarded us the PAS 55-1:2004 Asset Management Certification in August, reaffirming that the Company’s asset management system is in line with the industry’s global best practices.

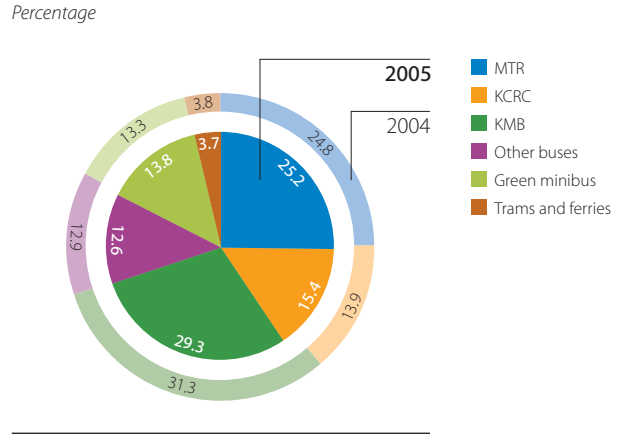
Railway operating costs per car km operated

Operating costs per car km operated were marginally higher due to higher staff costs and further enhancement to our assets and management system.



Market shares of major transport operators in Hong Kong

Despite intense competition, MTR's share of the total franchised public transport market increased in 2005.



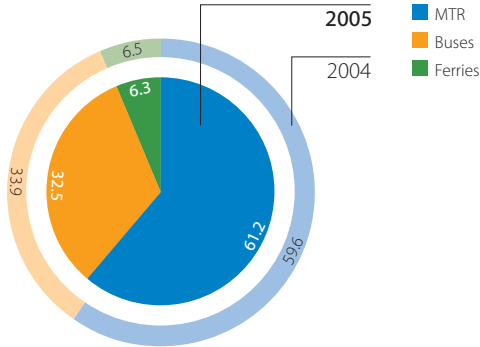
Disneyland Resort Station – destination station of the world's first dedicated rail line to a Disney theme park



Market shares of major transport operators crossing the harbour

MTR remained the preferred mode of public transport for crossing the harbour with market share topping 60%.

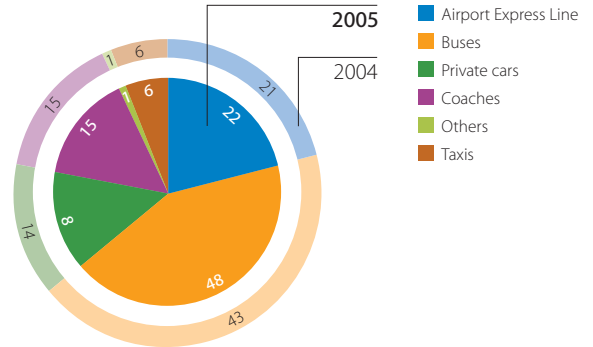
Percentage



Market shares of major transport operators to/from the airport

Higher numbers of air passenger arrivals and departures at the Hong Kong International Airport boosted our share of this market.

Percentage



Service improvements

MTR Corporation continued to make improvements to the network infrastructure and services, which are important to maintaining the attractiveness of MTR in comparison to other modes of transport.

During the year, access to the MTR network was improved at three stations via completion of new pedestrian links. A new subway and entrance were opened at Tsim Sha Tsui Station, connecting with Middle Road. At Mong Kok Station, a new entrance to Langham Place was completed, providing convenient all-weather access to the shops, restaurant and entertainment outlets of this new urban landmark. A new entrance was built at Kwun Tong Station connecting directly with the Millennium City 5.

Over the last 10 years, the Company has invested more than HK\$400 million in facilities for the disabled, including passenger lifts, ramps, wheelchair aids and stair lifts to provide easy access to stations. To enhance barrier free movement in stations, new passenger lifts were installed at Sheung Wan and Jordan stations, and portable ramps to assist wheelchair passengers to board and alight from trains were introduced at all MTR and AEL stations in September. The Company remains committed to enhancing facilities for disabled passengers further and HK\$100 million will be spent on projects in the next five years including stairlifts and audible devices on escalators and passenger lifts.



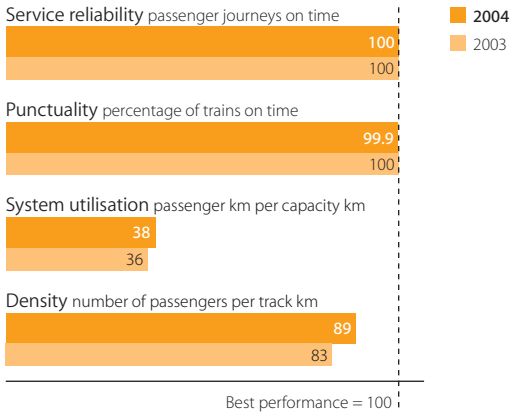
The Victorian setting of the Disneyland Resort Station captures the imagination of visitors as they begin the journey to the Disney theme park

The project to retrofit platform screen doors at all 30 underground stations, which began in early 2002, was substantially completed in 2005. During the year, the programme saw a further 18 platforms installed with the platform screen doors and associated lighting at Diamond Hill, Choi Hung, Lam Tin, Tin Hau, Fortress Hill, Quarry Bay, Tai Koo, Sai Wai Ho and Sau Kei Wan stations. Final completion of the programme is expected in the first quarter of 2006.

Benchmarking comparisons

MTR Corporation maintained its strong position, particularly in service reliability, against international benchmarks.

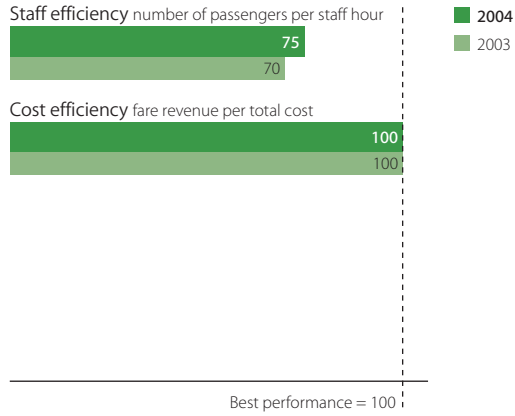
MTR performance vs. best performance



Staff efficiency and cost efficiency

New techniques and initiatives were introduced to enhance operating efficiency.

MTR performance vs. best performance



Integrated with AsiaWorld-Expo, the new AsiaWorld-Expo Station provides a convenient and direct access to the Hong Kong's newest and largest exhibition facility via the Airport Express Line

The eight years old station improvement programme is another important initiative by the Company to bring a fresher and more modern appearance to MTR stations to enhance the travelling experience of passengers. During the year, renovations were completed at eight stations: Lok Fu, Kowloon Bay, Diamond Hill, Kwai Fong, Sham Shui Po, Yau Ma Tei, Olympic and Tsing Yi stations, bringing the total number of renovated stations to 38.

For AEL, in anticipation of increase in patronage after the opening of the AsiaWorld-Expo Station which provides direct access to Hong Kong's newest and largest exhibition facility, the entire fleet of 11 AEL

trains was modified from a 7-car to an 8-car configuration, in order to increase capacity to meet the additional passenger demand. To cope with the increasing passenger service demand for Tung Chung Line, four new trains are under manufacture, the first of which will come into service in mid 2006 and the rest in the latter part of the year.

Productivity

In 2005, the Company continued its efforts to increase productivity.

One of the ways to keep maintenance costs down whilst ensuring that safety and service quality standards are not compromised is to adopt a new risk based approach in determining maintenance needs, using techniques such as reliability centred maintenance. Whilst this and other measures helped control maintenance costs, operating cost per car kilometre rose by 2.2% to HK\$22.8 in 2005 due mainly to higher staff costs and further enhancement to our assets, maintenance and asset management system in response to the public opinion in the latter half of 2004.

With a view to achieving further gains in operating efficiency in the future, we conducted trials on automated train door operation during the year. Depending on trial results and further tests, this may be introduced at a later stage.

System and market information

Railway operation data	2005		2004	
Total route length <i>in km</i>	91		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	557		515	
Number of advertising media in stations	15,127		14,863	
Number of advertising media in trains	10,624		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	720	720
– Disneyland Resort Line	270	270	–	–

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

Metro system network data (2004)	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 <i>in million</i>	834	457	976	1,442	616	3,201	1,426	1,336	438	532	503	2,076
Car kilometres <i>in million</i>	114	123	485	340	155	658	564	226	97	48	89	254
Route length <i>in km</i>	80	153	408	201	227	276	471	212	115	63	58	183
Number of stations	49	170	275	147	190	155	424	297	66	48	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 Transit, Sistema de Transporte Colectivo, Regie Autonome des Transports Parisiens Metro, Regie Autonome de Transports Parisiens Regional Express Railway, Metropolitano de Sao 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 2005

Service performance item	Performance Requirement	Customer Service Pledge target	Actual performance in 2005
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%	99.6%
– 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	928,563
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	8,000	12,654
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%	99.8%
– 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%	99.9%
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%