MTR Financial Performance Analysis - Before and After Rail Merger and Future Development Strategies

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Executive Summary

Hong Kong is a fast pace city, it is well-known by the world and special characteristic of this small amazing place. The citizens of Hong Kong require their life base on speed and they even believe that time is more valuable than money. Therefore, a safety and fasten rail service provided by MTR can just satisfy this requirement. Especially, after the merger with KCR, MTR stepped into a new era as it becomes the representative and the largest mass franchised public railway transport.

In this research report, we would like to find out and understand MTR financial performance and its future market development. Consequently, we analyzed the profit arise from operation during 2007 to 2008 and the increased market share of MTR after merging. Moreover, we have analyzed how long-term development benefit to the MTR.

Data collection method is significant since it can influence the accuracy and credibility of a project. Primary data of this report was obtained from questionnaire which includes on-line and face-to-face survey. Furthermore, we posted to Investor Relations Department and try to contact with the management. As for Secondary data was gathered from MTR 2007, 2008 Annual Report and the internet information. This part has been drafted on chapter 2.
Marketing analyzing includes market share of MTR before and after merging, trend of passenger journeys in 2008. See whether MTR has any impacts under new policies.

Financial analyzing including findings from questionnaire survey and financial ratio analysis between 2007 and 2008, these two parts have been summarized and analyzed in chapter 6.

To conclude, the overall performance of MTR is permissible. Although merging brought positive impacts to the company and hence arises up the market share and stabilizes market position. The management should put more effort to against the financial tsunami. The conclusion will be highlighted in chapter 7.
Acknowledgement

We would be deeply grateful to the following government departments, corporations and individuals for their contribution during the course of the study.

Special thanks to the Census and Statistics Department and the Transport Department for granting access to the 2007-2008 passenger journeys by public transport operator, and the Investor Relations Department of MTR Corporation for rendering useful information of future planning and providing the financial reports which were published.

Moreover, our sincere appreciation goes to our overall project members and the project leader and the deputy for the scrupulous analyzing, implementation, survey conducting. We also acknowledge the responsible and energetic efforts of them who carried out the interview capably, despite to having work.

In particular, we greatly thank to our project supervisor, Mr. Tony Lim, for his professional advice, experience sharing and generous supporting, who has supported and facilitated our work of critical aspects.

Last but not the least, we are much obliged to the people who had consented to take part in this study and accomplished the questionnaire or interview. Without their willingness to assist, this survey would not be possible done well.
Project Identification

1. **Project No.**
   T9

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5. **Project Area**
   Hong Kong Mass Transportation

6. **Project Type**
   Financial & Marketing Research Project

7. **Project Title**
   MTR financial performance analysis – before and after rail merger and its future development strategies

8. **Methodology**
   The following are employed:

   Primary Data:  
   (a) Questionnaire
   (b) Email to Investor Relations Department, MTR

   Secondary Data:  
   (c) Internet research
   (d) Annual Reports
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Chapter 1  Introduction

1.1 Background of MTR

MTR is regarded as one of the world's leading Mass transport services renowned for safety, reliability, customer service and cost efficiency.

On 2 December 2007, the Kowloon-Canton Railway Corporation was merged with the MTR. This rail merger activity does bring some new growth opportunities to the whole MTR Corporation's businesses in and outside of Hong Kong.

Due to the successful completion of the rail merger, we would like to discuss and analyze with details the changes of MTR financial performance resulted, together with daily sales service as well. The potential development of the various extension projects can give some solid internal strength. Consequently, we can see what the differences between before and after the rail merger is.
1.2 Overview of Public Transport System in Hong Kong

Hong Kong has a highly developed and complicated transportation network, encompassing both public and private transport. It is interesting to about 90% of people using public transport which is one of the highest rates in the world.

There are different types of public transportation including rail, road and maritime services:

- **Rail transport services:**
  - MTR
  - Trams
  - Peak trams

- **Road transport services:**
  - Buses
  - Public light buses
  - Taxis

- **Maritime transport services:**
  - Ferries
1.3 MTR, KCR and Their Combination

The rail merger brings tremendous benefits to the community. Also, the travelling public can get immediate benefit from fare reduction on Day One of the rail merger. The integration of the two rail systems also brings more convenience to passengers through better interchange arrangements.

With the fast expanding railway network on the Mainland, the rail merger is a timely move for Hong Kong which enhances our ability and potential in connecting with a railway route on the Mainland. This in turn will generate economic benefits and opportunities for Hong Kong. The merger will create a world class Hong Kong Railway Company and consolidate Hong Kong's status as Asia's World City.
1.4 Objectives

The major goal of this research is to enhance our understanding of MTR finance performance (Before and after the rail merger), and its future market development.

- By discussing and analyzing the reasons of how MTR getting the higher market share in the public transport; and

- By analyzing the profits from its operation arising from years 2007 to 2008.

By summarizing how the future development plans beneficial to MTR in the financial way

1.4.1 Market Share View

- To show the change of the market share of major franchised public transport modes before and after rail merger by using pie chart.

- To discuss the reasons why the market share of MTR can be higher than others in this few years.

- To identify and compare the market share of the public transports in Hong Kong from 2007 to 2008.
To analyze in depth how the MTR can attract more and more passengers lending to a favorable effect on MTR by getting higher profits. We are also going to analyze the number of the passengers using each type of transport means. Hence we can understand the trend of the number of the passengers that they would prefer to take. It can be proved by analyzing the financial performance of MTR Group as per below.

1.4.2 Financial Performance View

Profitability

In the case of MTR, there are four major areas of business income to focus with ticketing, property sale, advertisement and leasing revenues.

Those areas will be deeply analyzed in order to conclude the reasoning of MTR’s profitability and how to benefit from its future growth.
Liquidity

➢ To find out whether MTR has the sufficient cash flow and the ability to settle the liability.

➢ To assess the short-term and long-term solvency in MTR by using ratio analysis. Then, we use these ratios to make the comparisons of MTR’s commitment to solvency between 2007 and 2008 (before and after rail merges). Various factors will be studied, together with any implication of change summarized.

1.4.3 Future Development View

➢ To suggest how MTR daily service can be improved by analyzing the result from passengers’ questionnaire.

➢ To discuss the on-going projects in order to understand of how these projects extensions can contribute to the benefit of MTR’s future profitability and hence subsequently a source of finance.
Chapter 2 Methodology

Methodology acts as an important part to collect our data. In this chapter, we will list out all of our feasible methods. There are three methodologies for us to collect related primary data and secondary data. The followings are their details.

2.1 Primary Data

2.1.1 Questionnaire

Through the method of questionnaire, we can collect some primary data directly relating to the reasons why the passengers prefer to take MTR and idea to improve the service for the future. There are two types of interview, which are face-to-face interview and online questionnaire.

- Face-to-face Interview

Our sample was selected from each stratum separately, generating a stratified sampling. It clearly disclosed our purpose of the study which can be directly to know more people’s point of view for rail merger and opinion for MTR’s services. We interviewed 600 interviewees from 4 main MTR extensions randomly on 13th December. In each extension, we selected 3 significant stations\(^1\) to conduct interview.

---

\(^1\) Tsuen Wan Line: Tsuen Wan, Mei Foo, Tsim Sha Tsui
Kwun Tong Line: Mong Kok, Kwun Tong, Kowloon Tong
Island Line: Causeway Bay, Central, Wanchai
Tseung Kwan O line: Po Lam, Hang Hau, Yau Tong
We assumed that all interviewees were honest. Although this method may be time
consuming and the responses might be difficult to interpret, it was more accurate to
collect this kind of primary data and free from bias. In addition, we could get response
directly from the passengers as well, which could be treated as a major source of
reliable information to analyze.

- Online Questionnaire

We set up the questionnaire at www.my3q.com. It was an easy way to increase data
source, which was convenient at any time and in any place instead of face-to-face
interactions. Besides, this method was low cost and allowed more people to access.
Thereby, based on the feedback results, we could gain a deep knowledge and
comprehensibility of MTR.
2.1.2 Posting or E-mail to Investor Relations Department, MTR

In order to have a better understanding of MTR’s future development, we inquired the MTR Investor Relations Department that tried to understand more about the MTR’s internal operation or future marketing plans by sending e-mail or by post. It can ensure the reliability of the information, and can avoid any biased or misleading news. If we could not receive the reply from the MTR, afterward, we sent a follow up phone to them. However, we were still failed to connect with MTR.

2.2 Secondary Data

2.2.1 Internet

Internet is a huge data-base for secondary data retrieval.

- In order to ensure correct data being used, we accessed to financial information data from MTR / KCR Corporation’s website such as annual reports, financial statements and analysis etc. That information is useful for us to interpret and analyze the MTR financial performance.

- We researched those MTR’s market sharing information from the Transport Department in order to help us to conclude any increase in market share after the rail merger implementation.
We collected several online newspaper articles which were related to the public impression or commentary of the MTR’s daily service and social image.

In conclusion, Internet provides the majority of support for extraction of secondary information in order to ensure our analysis more accurate and updated.
Chapter 3  Anticipated Problems and Solutions

1. Questionnaire to passengers, MTR

- Reject answering the questionnaire.

  Solutions:

  - Clarify our purposes of interview

  - Avoid asking the personal information.

  - Avoid asking many unrelated questions

  - Design a simple or straightforward questionnaire, avoid time-consuming

2. E-mail to Investor Relations Department, MTR

- No reply to the e-mail

  Solution:

  - Phone to Investor Relations Department and try to inform them before sending the
    e-mail with a covering letter and indicate our purpose precisely thereby avoid to
    ignore our e-mail.
Chapter 4  Foreseeable Contribution

1. For the outsiders

Through the study, outsiders can know more about the internal operations of MTR and its ranking role on major franchised public transport modes before and after rail merger.

2. For the investors and directors

After analysis the financial performance from MTR’s operation potential investors can evaluate the risk of invest into the MTR shares. Moreover, the directors of MTR can get sight of more MTR internal matters whether there are the risks or losses in the company. Consequently, directors can suggest their proposal for improvement and the establishment of target policy for long-term stable development plan.
3. **For the students**

We can study how to analyze the financial performance of a Limited Company. On the other hand, we understand that the difference between a publicly transport company and other companies. Publicly transport company considers the interest for the public when it sets pricing in the market. Oppositely, the private companies seek to maximize the profit which is always being considered.
Chapter 5  Limitation

We have found several limitations in our study. We will compare the difference before and after rail merger in 2007 and 2008. The financial report of 2008 has just released. Therefore, this research report could use the financial information in that report together with other relevant source. However, we could not receive the reply from Investor Relations Department that we have sent it a letter and hope to ask for more detailed source. As a result, the scope of data we can get may become narrow. Beside, one year data in rail merger, the analysis may be restricted for a full investigation of the actual status of MTR.
Chapter 6  Marketing and Financial Analysis

6.1 Marketing Analysis

6.1.1 Findings

6.1.1.1 Questionnaire

We applied to a stratified sampling approach for conducting our questionnaires. Firstly, our target interviewees must use the MTR-trains service. 5 passengers chose as our interviewees from each target station. Criteria and how to choose target stations are mention in methodology (chapter 2). We got 600 findings from Face-to-face Interview. Moreover, we hope to acquire extra feedback through the internet. Afterwards, we collected 400 findings. We have gathered all of the data and conducted the following comparison and analysis.
Nearly 70% interviewees who were residents close to MTR stations, it showed that MTR has built a lot of MTR stations at different districts in Hong Kong. It can allow people saving much time so that it is convenient to take MTR-trains for them and arrive at their destinations in the short time. (Chart 1.1)

**Residence of interviewee close to MTR station**

- Yes: 69%
- No: 31%

*Chart 1.1*
There are 586 interviewees took MTR-trains compared to different kinds of other transportation. It proved that MTR had a higher market share for public transport in Hong Kong. MTR has owned an important status and it is an essential means of transport for the people nowadays. (Chart 1.2)

![Chart 1.2]
There were 691 interviewees thought that bus could compete with MTR. It showed that even though before or after rail merge, buses are the major competitor of MTR, which will threaten MTR’s market share. (*Chart 1.3*)

**Various transportation compete with MTR**

*Chart 1.3*
Nearly 90% interviewees took MTR-trains service in recent weeks (*Chart 1.4*).

As *Chart 1.5* shown, there were 40% of interviewees took MTR-trains service 5 to 10 times and 33% of them took it more than 10 times. It obviously indicated that the frequency of using MTR service is high.

As *Chart 1.6* shown, there were 92% passengers that spent more than $10 on MTR fares a week. It showed that MTR has stable revenue especially from workers and students.

### Taking MTR-train service in recent weeks

- **Yes** 88%
- **No** 12%

*Chart 1.4*
Frequency of taking MTR-train service per week

More than 10 times 33%

5 - 10 times 40%

Less than 4 times 27%

Chart 1.5

Spending on MTR-train service a week

Above $81 17%

$51 - $80 20%

$11 - $50 55%

Below $10 8%

Chart 1.6
Most passengers were usually taking Tsuen Wan line, Kwun Tong line and Island line. It showed that most of MTR train service revenues come from those lines. Therefore, MTR can consider providing more facilities for such line. (Chart 1.7)

**The MTR lines-interviewees usually take**

![Chart 1.7](chart17.png)
Most passengers thought that MTR can provide convenient and fast train services. Also, the passengers thought that using MTR can reduce a certain degree of traffic jam, so it showed that MTR’s service have scored high passengers confidence in efficiency and safety. (Chart 1.8)
The frequency of taking MTR-trains after the rail merger event increased about 12% (*Chart 1.9*). The main reason for that are the fares cheaper than before. Also, MTR can attract more passengers because of the MTR system of integrality and reliability, in which it leads the public to choose it after the rail merger. (*Chart 1.10*)

**Increase the frequency of taking MTR after the rail merger event**

![Pie chart showing 56% Yes and 44% No]

*Chart 1.9*
The reason for taking MTR more than before merger

- Travelling time saved: 18%
- MTR system reliability: 15%
- MTR system integrality: 29%
- Cheaper: 35%
- Others: 3%

Chart 1.10
Nearly 60% interviewees use more MTR services due to the half price incentive for students. It proved that the ‘MTR Students Travel Scheme’ is effective and successful. And indicated that it attracted more students using them as their transportation tool. (Chart 1.11)

**Chart 1.11**

*Due to half price, the student use MTR service more frequency*

- Yes: 56%
- No: 44%
Nearly 70% interviewees thought that Tseung Kwan O line extension will be helpful to them. (*Chart 1.12*)

As *Chart 1.13* shown, the main reason is that it is convenient. Tseung Kwan O line extension will bring benefit to the fare revenue of MTR.
The reasons that helpful to Tusung Kwan O residents

Chart 1.13

Number of people

Convenient | Less traffic jam | No other choice | Others

Chart 1.13
Almost 80% interviewees did not usually shop in MTR shops arcade (Chart 1.14). In order to increase more people shop in MTR, we suggested that MTR can propose some plan which is benefit to the passengers such as fare discount.

As Chart 1.15 shown, 50% interviewees chose convenient and 26% of interviewees shop in the arcade for urgent need respectively. They feel the products can fit their needs timely.
Reason for shopping in MTR shops arcade

- Convenient: 50%
- Various products: 4%
- Reasonable price: 9%
- Efficient: 2%
- Need urgently: 26%
- Others: 9%

Chart 1.15
Most passengers owned or lived in MTR’s property. **Chart 1.16** showed that MTR’s property is popular at the market and it is a good choice for investors or buyers.

As **Chart 1.17** shown, the reasons for choosing MTR’s property were for investing purpose, favored position and good transportation network. We know that the properties of MTR have a lot of competitive advantages and good reputation.

**Own or live in MTR's property**

![Chart 1.16](chart.png)
**Reason for choosing MTR's property**

- Favored position — 26%
- Higher potential revaluation — 17%
- For investing — 26%
- Good transportation network — 26%
- Others — 5%

*Chart 1.17*
About 500 peoples thought that the price of fare is reasonable. It showed that the price of MTR’s fare is generally accepted by the public. (*Chart 1.18*)
Most of the interviewees thought that MTR’s fare concession is necessary.

(Chart 1.19)
Refer to Chart 1.20, it showed that the interviewees agreed that MTR’s facilities have an average or above average level of satisfaction. It proved that MTR has good maintenance in facilities that can fit passengers’ needs.

**MTR’s facilities**

![Chart 1.20](image)
As Chart 1.21 shown, most interviewees thought MTR has normal and good reputation in forms of reliability and speed. It showed that MTR can score a high ranking in reliability and stability in Hong Kong mass transportation.
As Chart 1.22 shown, the majority of interviewees thought that MTR’s staff service was average or above. It proved that there is a well-established talent development program to encourage employees on continuous learning and personal enhancement.
As Chart 1.21 shown, 35% interviewees realized that MTR should cut the ticket price, offer extra interchanged discounts, set up more feeder buses and extension lines. We thought that those incentive plans are effective under economic recession.

The ways of MTR attracting more passengers

*Chart 1.23*
6.1.1.2 **Posting or E-mail to Investor Relations Department, MTR**

We had posted the letter of request in the early February 2008. But until the end of February, it still had no response from the MTR. So we have asked the further request by sending e-mail at cr@mtr.com.hk. Subsequently, they have replied us that we can access the information though website. Despite of not having any interview with the financial controller of MTR arranged, we can are still manage the related matter.

All letter and e-mail are put on the report. Please refer to the appendixes. They include the letter of request, the email correspondence with MTR and the proposed interview questions.
6.1.1.3 Market Share and Trend

We have compared the market share of major franchised public transport modes in 2007 and 2008.

As Chart 2.1 shown, the major competitor of MTR was franchised buses 54.13% and it was 35.89% larger than MTR in 2007.

After rail merger, there was a significant effect in the public transportation system. As Chart 2.2 shown, franchised buses still occupied the largest market share but it has declined to 39.69% in 2008 rapidly.

In 2007, the market share of MTR plus KCRC was 29.54%. In 2008, the market share of them has risen to 37.66%. It led to MTR become the largest market share in the rail transport because of rail merger. Also, it definitely showed the rail merger has made a massive change in MTR’s market share other than the market share of whole franchised public transport modes.

The reason why the market share of MTR can be higher than others is that the rail merger lead to the network of MTR becomes more integrated, which facilitate to build up a good reputation than before. The facilities that specially set up for the merger event, which helps the passengers go to the destination directly and more efficiently.

Due to the rail unified, MTR becomes the most characteristically public mass rail
transportation. Thereby, it can attract more passengers to use the rail services.

On the other hand, a few of green light bus has already entered into the MTR’s interchange preferential program after rail merger. Thus, market share of public light bus has increased slightly in 2008.
Market Share of Major Franchised Public Transport Modes in 2007

Chart 2.1

Market Share of Major Franchised Public Transport Modes in 2008

Chart 2.2
According to given data from Transport Department, the chart showed the trend of average monthly passenger journeys of MTR in 2008 with after merging. The number of passengers on monthly basis has been rising gradually. On account of MTR’s favorable rail networking and continuous improvement, it attracts more passengers than before rail merger or from the franchised buses. It is because rail merger has provided more competitive advantages for MTR, such as, lower tickets fare and higher reputation.

Chart 2.3
6.1.2 Marketing Analysis

➢ Strengths

*Diversification of business*

In addition to its railway operations, MTR has involved in a wide range of business activities which including advertising, telecommunication, sale and management of properties, leasing property and consultancy services. These can provide a wider source of income and avoid increasing the business risk.

*Good public image and reputation*

The railway services of MTR regarded as world class quality which has built an excellent reputation. It has highly scored the public confidence in daily services.

*Wider transportation network*

MTR is one of the major rail transports and has wider rail network in Hong Kong, which can maintain stable revenue in railway operations. Also, the rail merger can bring higher market share and stabilize the market position in Hong Kong.
Weaknesses

Uncertainties occurred in rail merger

During the rail merger, it has brought many uncertainties to staff and shareholders which lead the quarrels occurred to reduce their morale. Also, the company’s productivity and the quality of services may be affected by the uncertainties.

The effects of the management base after rail merger

The merger has increased large amount of workers rapidly, it may brings the difficulties for internal management and the KCRC staffs need more time to adapt the MTR’s management policy or culture gradually.

Opportunities

Development in both local and international business

The merger will bring new growth opportunities to MTR's business in and outside of Hong Kong other than bringing more efficient and integrated services to local passengers. MTR Corporation has expanded into Mainland China. Also, the scope of the Corporation's consultancy business has widened to cover cities across Asia, Australia, the Middle East and Europe. It makes MTR to become more internationalized.
Providing concessionary for lessee during financial tsunami

It can promote a concessionary period for lessees to sign a longer time leasing contract during the financial tsunami or economic recession, thereby it can keep stable revenue of leasing properties in this period of time.

Reduction of fare after rail merger

Due to the fare reduction after rail merger, it attracts more passengers to save transportation expenses by taking MTR rather than driving or taking other transports.

➢ Threats

Fluctuation of property value in financial tsunami

The fair value of the property will be fluctuated by the financial tsunami. The property is taking the largest proportion of MTR revenue, so it will bring unstable profit and will reduce the net profit from property in coming years.

Influence the MTR investors’ confidence

The developing activities will be slowed down and the confidence of investors collapsed during financial tsunami. Therefore, it may be difficult to raise the capital from outsiders.
6.2 Financial Analysis

6.2.1 Financial Ratio

We used the different kinds of ratios including Profitability Ratios, Short Term Solvency Ratios, Long-Term Solvency Ratios, and Investment Ratios to analyze the financial performance of MTR before and after the rail merger. Furthermore, KMB is the major competitor of MTR, thus, we have analyzed financial ratios of it in order to raise the reliability and truthfulness of the information.

➢ Profitability Ratios

Net profit sales percentage

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit sales percentage</td>
<td>51.21%</td>
<td>170.86%</td>
</tr>
</tbody>
</table>

As the above figures, the percentage change of net profit sales ratio of MTR was decreased in 70.03%. Although the turnover has increased, the expenses increased 74% which caused the net profit sale percentage decreasing over 70%.

The growth rate of expense due to staff costs and expenses relating to station commercial and rail related businesses is raised in a greater proportion than the turnover.
In compared with KMB, the net profit ratio of MTR was stronger than that of KMB. It proved that MTR had higher capability to generate the profits and control of expenses efficiently. Due to the successful merger, MTR had more competitive advantages and it strengthens its market position.

<table>
<thead>
<tr>
<th>Return on owners’ equity (before taxation)</th>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on owners’ equity (before taxation)</td>
<td>9.23%</td>
<td>20.06%</td>
</tr>
</tbody>
</table>

As the above figures, the percentage change of the return on owners’ equity ratio of MTR decreased in 53.99% because financial tsunami made the profit decreased. In 2008, MTR paid fewer final dividends than 2007. Therefore, investors may not invest more in MTR in this circumstance.

In compared with KMB, Compare the changes in return on owners’ equity between MTR and KMB in 2007 and 2008, MTR and KMB decreased by 10.83% and 43.56%. The owner’s equity of MTR was increased however that of KMB was decreased. Thus, MTR could offer a better return for shareholders.
Return on capital employed (before taxation)

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on capital employed (before taxation)</td>
<td>9.36%</td>
<td>14.11%</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>Return on capital employed (before taxation)</td>
<td>10.02%</td>
<td>48.17%</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>2007</td>
</tr>
</tbody>
</table>

As the above figures, the percentage of return on capital employed of MTR decreased in 33.66%. Such decrease would be result of lack of efficiency use of capital as explained by the larger degree of substantial increased in expenses.

In 2008, the return on capital employed declined, which meant MTR’s return might not have sufficient money to cover the cost of capital. The relevant solution is to control running cost, in order to rearrange and ensure MTR’s cash flow in proper way.

In compared with KMB, Due to rail merger and financial tsunami, it stopped KMB to implement several investment plans in 2008. Therefore, the profit of KMB had a significant decline around 82.68% dropped in profit in this year.

Compare the changes in return on capital employed between MTR and KMB in 2007 and 2008, MTR and KMB decreased 33.66% and 79.20% respectively. It means that MTR had a better return than KMB to shareholders if their capital employed on MTR investment.
Asset turnover ratio

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.12</td>
<td>0.87</td>
</tr>
<tr>
<td>2007</td>
<td>0.0975</td>
<td>1.20</td>
</tr>
</tbody>
</table>

As the above figures, the percentage change in asset turnover ratio of MTR decreased in 23.08%. The shareholders might be happy to see the improvement in profitability in that the return on capital equity increased.

In compared with KMB, The asset turnover ratio of MTR had increased 0.0225, oppositely, it had a 0.33 decreasing in KMB from 2007 to 2008. It means that KMB had a higher rate turnover that proved KMB had a better operating ability than MTR.
Short Term Solvency Ratios

Current ratio (Working capital ratio)

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Current ratio (Working capital ratio)</td>
<td>0.88</td>
</tr>
</tbody>
</table>

Liquid ratio (Quick ratio or acid test ratio)

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Liquid ratio (Quick ratio or acid test ratio)</td>
<td>0.76</td>
</tr>
</tbody>
</table>

As the above figures, the percentage change in current ratio and liquid ratio of MTR are both increased in 25.71% and 15.15% respectively. This indicated that MTR might have liquidity problem in paying short-term liabilities, as both current ratios and quick ratios were below the standard of 1.

Perhaps, MTR had difficulty in liquidity, thus it might need to borrow money for the settlement of the existing short-term debts. Consequently, further creditors of MTR incurred and there was an increased in current liabilities. On the other hand, such borrow money might for short-term investments.
Debtors’ collection period (in days)

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Debtors’ collection period (in days)</td>
<td>380.11</td>
</tr>
<tr>
<td></td>
<td>(in days)</td>
</tr>
</tbody>
</table>

As the above figures, the percentage change in debtors’ collection period of MTR increased in 149.37%. As the profit margin became worse, MTR might want to improve this. Therefore, MTR might grant a longer credit period to customers in 2008 in order to secure a higher level of sales. If the credit period is longer, the debts’ collection will be relatively longer. As a result, it might increase the risk of collection short-term debts.
Long-Term Solvency Ratios

**Gearing ratio**

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Gearing ratio</td>
<td>17.34%</td>
</tr>
</tbody>
</table>

As the above figures, the percentage change in gearing ratio of MTR increased in 21.07% due to long-term liabilities decreasing. The owners’ equity is higher than that of long-term liabilities, as the result of gearing ratio had dropped. Therefore, they can raise their debts to make more investments.

**Interest cover**

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Interest cover</td>
<td>5.52 times</td>
</tr>
</tbody>
</table>

As the above figures, the percentage change of interest cover of MTR increased in 62.9%. Since the profit before interest and tax was decreased. Adversely, the interest expenses were increased. This led the interest cover dropped.

Further MTR needed capital for investing the new lines expansion and merger event that might raised funds from banks, for this reason, there was an increase in interest burden of MTR. Therefore, the financial charge was high.
The gearing ratio declined however the interest cover was low, which implies that MTR did not own sufficient profit to cover interest expense. Consequently, the financial risk of MTR was relatively high.
Chapter 7 Conclusion

7.1 General Conclusion

We have analyzed and compared the changes of MTR Corporation in financial and operational ways before and after the merger. Moreover, we obviously found that the rail merger has created significant impact and benefits to MTR Corporation.

- Financial

Rail

With the effect of the rail merger, the revenue had a huge growth in 2008. Fare revenue was $11,467 million and increased by 60.8%.

<table>
<thead>
<tr>
<th>($ million)</th>
<th>2008</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic service</td>
<td>7,930</td>
<td>6,213</td>
<td>Increased 27.6%</td>
</tr>
<tr>
<td>Cross-boundary service</td>
<td>2,283</td>
<td>201</td>
<td>Increased 1035.82%</td>
</tr>
<tr>
<td>Airport Express</td>
<td>673</td>
<td>655</td>
<td>Increased 2.75%</td>
</tr>
<tr>
<td>Light Rail, intercity and bus</td>
<td>581</td>
<td>46</td>
<td>Increased 1163.04%</td>
</tr>
</tbody>
</table>

Its financial report in 2008 supported the successful merger event. MTR reduced fare, benefiting 2.8 million passengers. It integrated rail networks which in Kowloon Tong, Mei Foo and Nam Cheong in September 2008. In addition, it achieved synergies of over $350 million in 2008. The rail merger made MTR becomes a powerful company with confidence to face the future.
### Property

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>$8,304 million</td>
<td>$4,670 million</td>
</tr>
</tbody>
</table>

As the above figure, the profit decreased about 50%. The reason for that was mainly attributed to financial tsunami. MTR stopped to promote and sell several properties in 2008. Besides, the average selling price of properties declined during financial tsunami.

MTR did not satisfy the profit of property segment because of the effect of financial tsunami. We believe that MTR will obtain a pleased growth on property during economic recovery afterward.

*Controlling the expenses*

MTR merged with KCRC in 2008, however, it was not lead a large growth of profit. In oppositely, the net profits sharply decreased around 50% in 2008 compare with 2007. The reason of that drop due to MTR has expanded its business and incurred huge expenses of the expanding, even there was increased profit of sales. Thus, MTR should control the expenses of various projects and developments.
**Dissatisfying in short-term solvency**

MTR was suggested to improve the short-term solvency. Until 2008, the current ratio of MTR was still below the standard of 2. The bank overdrafts and short-term loans of MTR were arisen rapidly, which were from $2 to $59 million and from $507 to $1,646 million in 2007 and 2008 respectively after rail merger. It indicated that MTR did not have sufficient assets to cover the short-term debts. We afraid MTR could not able to turnover immediately in emergency case during short-term period. Moreover, the debtors’ collection period became longer. That meant MTR has to wait for longer period to collect the debts. Thus, the risk of bad debts may occur frequently.
Looking for effective solution

Since the total liabilities declined by 4.82%, lead to the 7.45% increased of net assets.

It showed that MTR had a pleased growth of net assets in 2008 after rail merger.

There was only a slightly profit growth in 2008. Thus, the financial performance was not reaching the expectation of market view and it was dissatisfactory. Besides, the financial performance can be greatly improving if the management is done better.

Management should concentrate their effort and rally the direction in order to find out suitable and effective solutions to against to financial tsunami.
Operational

Enhance market share and position

MTR has implemented fare reduction immediately upon rail merger, which was attracted large number of passengers to use MTR rather than other means especially this is beneficial to students or passengers who taking long journey.

The merger has achieved a massive increase of market share in Hong Kong franchised public transport. Thus MTR has occupied a significant market position and regarded as a monopolist in Hong Kong rail system. The scope of fare revenue definitely becomes wider.

The greater increase of revenue after rail merger has made MTR with confidence to face the future. MTR can gain better internally financed and high reputation so that it can enter global railway business successfully.
**Enjoy economic of scale**

The enterprise has expanded the scale of production after rail merger; it can also allow MTR to allocate resources and reduce the production cost effectively.

MTR can increase bargaining power for bulk purchasing of materials, and lower interest rate for raising funds externally. As the result, it helps to increase net profit at lower production cost.

**Attain more integrated networking**

KCRC merged with MTR is horizontal integration which the competition with each other will be eliminated. On the other hand, the rail network has almost covered in everywhere of Hong Kong after the extension line project completed, which helps MTR promoting a good reputation in safety, reliability and integrity.

In addition, the rail merger actually brings new growth opportunities to business of outside Hong Kong and enhances more investors confidence.
7.2 Recommendation

7.2.1 Future Plan

7.2.1.1 Service

After the rail merger between MTR and KCR, MTR becomes the largest mass rail transportation. It represents a new generation of transportation, and at the same time it should takes more responsibilities for providing better services to the public. It has to collect opinion for improving the services from many different dimensions.
MTR planned improvement in future:

*To install screen doors*

- To reduce the frequency of accidents happen. With reference to newspaper some after the installation of doors, the suicide rate has shapely reduced 80%
- To prevent passengers’ belongings drop into the rails
- MTR has responsibility to secure safety for passengers

*Green light system*

- In near future, this system will be served within 3 trams. It helps to save 30% resources
Our recommendations:

*Set up washrooms*

- Without washrooms at the MTR stations, it may cause inconvenient to the passengers. Therefore, we are highly recommended to set up washrooms especially in some crowded stations.

*Set up the internet-free access services*

- To allow the passengers to serve the internet freely. The businessman can handle their business immediately. They can contact and communicate with the foreigners immediately too.

*Regain the Monthly Pass*

- The passengers who usually take MTR can enjoy more discounts.

*Set up the medical rooms for urgent treatment*

- When the passengers get sick, it has a place for them to rest
- When the passengers get hurt, the first-aid personnel will rescue them at once.
Providing the umbrella

- People can borrow umbrella in the MTR station by paying the deposit. When they return the umbrella at any MTR station, the money will be refunded to them.

- It is convenient for people who haven’t an umbrella in rainy days.

Establishing the special compartment for female

- In the public holiday or busy hour, there are crowd of people in MTR’s compartment. The opportunity of the crime might be increased.

- To avoid this event happen, we suggest providing a special compartment for female passengers especially during rush hours.

- These facilities have been already set up in Japan. It is very successful. Therefore, MTR in Hong Kong may imitate.
7.2.1.2 Lines

In order to make the existing network providing more convenient and effective rail services to the residents, MTR has planned a series of construction projects including in progress projects and further planning projects, in which the new extensions can bring huge revenues for MTR. Furthermore, the benefit is not only for the residents who live along the alignments, it can also increase employment opportunities.

➢ Progressing lines

Due to the increase in more train service network, MTR has been constructing two new extensions under construction which are Kowloon Southern Link and Tseung Kwan O Extension (Phase 2).
As the above figure shown, it will set up Austin station which is located in Canton Road Government Offices. This construction was started in 2005 and has been expected to operate in this August.
In order to offer higher quality and more efficiently services, East rail and West rail will be linked. Moreover, the Austin station will be convenient for the travelers who intend to take the cross-boundary ferry from Hong Kong China Ferry Terminal. There will have Guangzhou-Shenzhen-Hong Kong Express Rail Link in the foreseeable future.

With the interface for connecting between the station and West Kowloon Cultural District, it can reaffirm the position of Hong Kong as Asia's World City, and can attract more tourists and foreign investors. Hence, the revenue of MTR will be increased as well as the market share of MTR will be extended.

Beside, the New Territories northwest residents will no longer suffer from trapping in traffic jams because traveling from Tin Shui Wai to Tsim Sha Tsui with require 30 minutes only, together with and 25%-50% time saving. It will be attractive for them.

This project has some faultiness so we propose some idea to MTR. It is 5 minutes requiring from China Hong Kong City to Austin station, we suggest that either covered pedestrian flyover or built subway. It will be convenient for the passengers especially in rainy days.
As the above figure shown, it will be extended from Tseung Kwan O to LOHAS Park Station for the purpose of serving the new residents who reside near the station. The Tseung Kwan O extension Line has been under construction till this September. It helps Tseung Kwan O becomes integrated urban planning which provide enormous potential development opportunities. It is leading more property appreciation opportunity in Tseung Kwan O.
Because we cannot source the estimation of sales revenue and the number of people taking it for these two projects on the MTR’s website. Therefore, we have already sent the letter to MTR to ask the questions. However, up to now, we have not gotten any reply from MTR.

- Further Planning and Design

MTR has a further planning and design for two new extensions, which are Shatin to Central Link and Kwun Tong Line Extension. MTR has got the approval from Hong Kong Government on March 2008 and the construction work for both projects is expected to start in 2010.
Shatin to Central Link (SCL)

As the above figure shown, SCL would have nine stations from Tai Wai to Admiralty.

SCL can redistribute the passenger flow effectively and relieve some pressure on the existing railway lines in urban Kowloon and on Hong Kong Island. It also can help to relieve the reliance on other road-based public transport and thus improve traffic congestion and environmental nuisance on existing road networks.

It is estimated that the SCL will carry about one million passengers per day in 2021. Besides, it can generate about $4 billion for annual economic benefit. The new railway will create huge jobs opportunities and positions during construction and operation.
Kwun Tong Line Extension

As the above figure shown, the scheme will involve an extension of the existing Kwun Tong Line from Yau Ma Tei to Whampoa, which is scheduled for completion by 2015.

It is estimated that the daily patronage will be 180,000 in 2016. If the passengers take the rail from Whampoa, it can reach Mong Kok in five minutes, compared with 25 minutes by road-based transport during rush hour. It is expected that it can generate about $0.4 billion for annual transport benefit in future.
As the above figure shown, WIL is connected from Sheung Wan to Kennedy Town.

The public could enjoy the MTR services and save time for interchange.

By using WIL, passengers could travel from Kennedy Town to Sheung Wan in eight minutes, compared with 15 to 25 minutes by road-based transport during rush hour.

WIL will bring substantial economic and environmental benefits to the Hong Kong and estimate that it has $44 billion in 40 years of operation and generate employment opportunities.

It is expected that construction of the WIL will start in 2009 and complete it in 2013-2014.
**South Island Line (SIL) (East)**

SIL (East) will start from Admiralty to South Horizons. It will help to relieve the heavy traffic, especially the Aberdeen Tunnel during peak hours. By using SIL (East), passengers could travel from South Horizons to Admiralty in nine minutes, compared with 25 to 45 minutes by road-based transport during rush hours.

It is estimated that SIL (East) will help the public to save time for interchange and the railway operation could create $32 billion for the economic benefits in 30 years. The new railway will create jobs opportunities and positions during construction and operation.

It is expected that construction of the railway line will start in 2011 and complete it 2015.
Overseas Railway Services

Except developing more extensions in Hong Kong, MTR even extend its business to oversea. It helps the Corporation to promote the international recognition and goodwill.

*MTR got contract to operate Stockholm Metro successfully*

The MTR Corporation has recently got the announcement from Stockholm Public Transport (SL) that success to award the concession rights to operate Swenden’s Stockholm Metro. The concession rights will start from 2\(^{nd}\) November 2009 for 8 years.

Stockholm Metro links the Swedish capital’s central areas and dormitory area. There are 3 lines and 100 stations totally, about 1.2 million people take them every day.

The concession includes train and station operations as well as train maintenance. This concession is worth $20 billion in 8 years that contain all operating, maintenance and staff costs and project profit for the MTR.

For MTR Corporation, the awarding of this contract represents an international recognition and confirmation of MTR’s ability to deliver high reliable train services with excellent customer service. (Total: 6539 words)
Appendix 1  Bibliography

1. 2008 Annual Report, MTR Corporation Limited, 0066

2. 2007 Annual Report, MTR Corporation Limited, 0066


12. The Management Development Centre of Hong Kong, *Hong Kong management cases in marketing*, Hong Kong: Chinese University Press: Management Development Centre of Hong Kong, c1996.


## Appendix 2

### Reference

#### Newspapers

- Oriental Daily: [http://orientaldaily.on.cc/](http://orientaldaily.on.cc/)

#### Official website


#### Special compartment for female

Platform screen door

http://www.dab.org.hk/tr/main.jsp?content=article-content.jsp&articleId=5229&categoryId=1385


Green light system

http://hk.news.yahoo.com/article/090212/3/andr.html
Appendix 3  MTR System Map after Complete Projects
Appendix 4  Overview of Public Transport System in Hong Kong

Hong Kong has a highly developed and complicated transportation network, encompassing both public and private transport. It is interesting to about 90% of people using public transport which is one of the highest rates in the world.

- **Rail transport services:**

  Public transport trains are operated by MTR mainly.

  - **MTR**

    MTR operates the metro network within the New Territories, Kowloon, Hong Kong Island and Lantou Island.

  - **Trams**

    The Hong Kong Tramways operates a tram service exclusively on Northern Hong Kong Island.

  - **Peak trams**

    The Hong Kong and Shanghai Hotels group operates a peak tram service connecting from Central to Victoria Peak via the Mid-Levels.
Road transport services:

- **Buses**

Bus services are divided from franchised public bus services, non-franchised public buses services including feeder bus services and public light buses services.

The five franchised bus companies are:

- **Kowloon Motor Bus Company (1933) Limited**

  It is one of the largest privately-owned public bus operators in the world. It operates a bus service within the New Territories and Kowloon.

- **Citybus Limited**

  It operates a bus service within Hong Kong Island, Ocean Park Hong Kong, City One, Hong Kong Disneyland and Hong Kong International Airport. It also offers a rent service.

- **Long Win Bus Company Limited**

  It has been granted the franchise to operate bus routes for North Lantau, the airport and the New Territories urban. It is a wholly-owned subsidiary of Kowloon Motor Bus.

- **New World First Bus Services Limited**

  It operates a bus service within Hong Kong Island mainly.

It operates a bus service within Lantou Island.

Public light buses

Public light buses (minibuses) run the length and breadth of Hong Kong, through areas which the standard bus lines can not or do not reach as frequently, quickly or directly. Minibuses carry a maximum of 16 passengers and no standees are allowed.

Two types of public light buses:

- Green minibuses

They have specified route numbers at designated stops and whose fares, service and frequency are regulated.

- Red minibuses

They may not have regular route numbers, not have fixed stops and whose fares and service levels are not regulated.
Appendix 5  Questionnaire

Survey of MTR

We are IVE(TM) students who are studying the MTR financial performance project. Please spend a few minutes to complete the following questionnaire and put “✓” into the suitable box.

◆ All information are used only for academic research
◆ All personal information will be kept under strict confidential
◆ All information will be destroyed after this academic project report finished
◆ We appreciate your precious time contributed to our success. Thank you.

**Personal details**
Gender: □ Male  □ Female
Occupation: □ Employed  □ Student
□ Unemployed □ Housewife
You resident close to one of MTR station. □ Yes  □ No
Which main transportation do you take most?
□ MTR □ Bus □ Mini-bus □ Taxi
□ Ferry □ Tram □ Others: ________________
Which transportation can compete with MTR?
□ None □ Bus □ Mini-bus □ Taxi
□ Ferry □ Tram □ Others: ________________

**MTR-train Services**
1. Have you ever taken MTR-train service in recent week?
   □ Yes  □ No (go to Q4)

2. How often do you take MTR-train service a week?
   □ Less than 4 times  □ 5 - 10 times □ More than 10 times
3. How much do you spend on travelling by MTR-train service a week?

- Below $10
- $11 - $50
- $51 - $80
- Above $81

4. Which line(s) do you usually take? (Can tick more the one)

- Tsuen Wan Line
- Kwun Tong Line
- Island Line
- Tseung Kwan O Line
- Tung Chung Line
- Airport Express
- Disneyland Resort Line
- East Rail Line
- West Rail Line
- Ma On Shan Line
- Light Rail

5. What is/are the reasons for you to choose MTR as a transport means? (Can tick more the one)

- Comfortable
- Convenient
- Custom
- Fast
- Good staff service
- Less traffic jam
- Cheaper
- Safe
- No other choice
- Others: __________________

6. Do you think you take MTR more after the rail merger event?

- Yes
- No (go to Q8)

7. Why do you take MTR more than before merger?

- Cheaper
- MTR system integrality
- Travelling time saved
- MTR system reliability
- Convenient
- Others: __________________

(For students only)

8. Due to half price, do you use more MTR service?

- Yes
- No (go to Q9)

(For Tseung Kwan O residents only)

9. MTR generates Tseung Kwan O line extension, does it helpful for you?

- Yes
- No (go to Q11)

10. Why does it helpful for you?

- Convenient
- Less traffic jam
- No other choice
- Safe
- Others: __________________
MTR Shops
11. Do you usually shop in MTR shops arcade?
   □ Yes  □ No  (go to Q13)

12. Why do you shop in MTR shops arcade?
   □ Convenient  □ Reasonable price  □ Various products
   □ Need urgently  □ Good sales services  □ Others: ____________

Property
13. Have you ever owned/ lived in MTR’s property?
   □ Yes  □ No  (go to Q15)

14. Why do you choose MTR’s property? (Choose not more than two)
   □ For investing  □ Good transportation network
   □ Higher potential revaluation  □ Favored position
   □ Others: ____________

Others
15. What do you think about MTR's fare?
    (1 - Very unreasonable, 5 - Very reasonable)
   □ 1  □ 2  □ 3  □ 4  □ 5

16. What do you think about the MTR's fare concessions after merger?
    (1 - Very unattractive, 5 - Very attractive)
   □ 1  □ 2  □ 3  □ 4  □ 5

17. What do you think about the MTR's facilities? (E.g. Lift, Elevator)
    (1 – Poorly maintained, 5 - Well maintained)
   □ 1  □ 2  □ 3  □ 4  □ 5

18. What do you think about the MTR's reputation in forms of reliability and speed?
    (1 - Worst, 5 - Best)
   □ 1  □ 2  □ 3  □ 4  □ 5
19. What do you think about the MTR's staff service?  
(1 - Worst, 5 - Best)  
☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

20. How can MTR attract more passengers?  
☐ Price cutting ☐ Holding more functions  
☐ Increasing interchange discounts ☐ Increasing feeder bus  
☐ Increasing extension line  
☐ More advertisement in the newspapers and magazines  
☐ More advertisement on the internet

21. What sort of NEW services do you suggest MTR to introduce?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

<END>
問卷調查

我們是香港專業教育學院的學生，現正進行有關研究港鐵公司財務表現的報告。懇請各位能完成以下問卷調查，並在適當位置填上“✓”。

◆ 所有資料只作於學術上研究。
◆ 所有個人資料會作保密。
◆ 所有資料會在研究調查後銷毀。

個人資料
性別: □ 男性    □ 女性

職業: □ 在職    □ 學生    □ 無業    □ 家庭主婦

你的住處是否鄰近港鐵車站？ □ 是    □ 否

你最常乘搭的交通工具是？
□ 港鐵    □ 巴士    □ 小巴    □ 的士
□ 小輪    □ 電車    □ 其他：（請註明）____________________

你認為哪種交通工具最能成為港鐵的競爭對手？
□ 沒有    □ 巴士    □ 小巴    □ 的士
□ 小輪    □ 電車    □ 其他：（請註明）____________________

港鐵列車服務
1. 最近一個星期內，你有享用港鐵列車服務嗎？
□ 有    □ 沒有（請跳至問題 4）

2. 你在一星期內享用多少次港鐵列車服務？
□ 少於 4 次    □ 5-10 次    □ 多於 10 次

3. 你在一星期內花費多少金錢在港鐵列車服務？
□ 少於$10    □ $11 - $50    □ $51 - $80    □ 多於$81 以上
4. 你最常乘搭哪一條港鐵線？（選擇可多於一項）
  □ 荃灣線     □ 觀塘線     □ 港島線
  □ 將軍澳線    □ 東涌線     □ 機場快線
  □ 迪士尼線    □ 東鐵線     □ 西鐵線
  □ 馬鞍山線    □ 輕鐵線

5. 有什麼原因令你選擇港鐵為你的交通工具？（選擇可多於一項）
  □ 舒適  □ 方便  □ 習慣
  □ 快捷  □ 職員服務良好 □ 較少交通擠塞情況
  □ 便宜  □ 安全  □ 沒有其他選擇
  □ 其他：（請註明）______________

6. 你認為兩鐵合併後，你會否乘搭更多港鐵？
  □ 是  □ 否 （請跳至問題 8）

7. 承上，原因是？
  □ 便宜  □ 鐵路系統完整
  □ 節省時間 □ 鐵路系統可靠
  □ 方便  □ 其他：（請註明） ________

（只限學生）
8. 合併後學生半價優惠的推廣，你是否因此使用港鐵服務較以往多？
  □ 是  □ 否 （請跳至問題 10）

（只限將軍澳居民）
9. 將軍澳支線的發展，是否對你有助？
  □ 是  □ 否 （請跳至問題 12）

10. 承上，原因是？
    □ 方便  □ 較少交通擠塞情況 □ 沒有選擇
    □ 安全  □ 其他：（請註明） ______________
Hong Kong Institute of Vocational Education (Tuen Mun)

Appendix

港鐵商店
11. 你是否經常在港鐵範圍內的商店購物？
   □ 是         □ 否 （請跳至問題 14）

12. 承上，原因是？
   □ 方便   □ 價錢合理   □ 產品不同
   □ 緊急需要 □ 店員服務良好   □ 其他：（請註明） __________

物業
13. 你現時有沒有擁有/居住港鐵物業？
   □ 有             □ 沒有 （請跳至問題 15）

14. 為何選擇港鐵物業? (可選擇多於一個答案)
   □ 投資                       □ 交通方便
   □ 升值潛力高                       □ 有利位置
   □ 其他：（請註明） __________

其他
15. 你認為港鐵車費如何？
   (1為最不合理，5為最合理)
   □ 1  □ 2  □ 3  □ 4  □ 5

16. 兩鐵合併後，你認為港鐵車費的調整如何？
   (1為最不吸引，5為最吸引)
   □ 1  □ 2  □ 3  □ 4  □ 5

17. 你認為港鐵設備如何？(例如：升降機, 扶手電梯)
   (1為最差，5為最好)
   □ 1  □ 2  □ 3  □ 4  □ 5

18. 跟據可靠性和車速，你認港鐵的聲望如何？
   (1為最差，5為最好)
   □ 1  □ 2  □ 3  □ 4  □ 5
19. 你認為港鐵員工服務如何?
   (1 為最差，5 為最好)
   □ 1 □ 2 □ 3 □ 4 □ 5

20. 你認爲如何增加乘客量？
   □ 調低價格 □ 舉辦多些活動
   □ 增加轉乘優惠 □ 增加接駁巴士
   □ 增加鐵路支線
   □ 增加報章及雜誌廣告
   □ 增加網頁廣告

21. 你建議港鐵公司可引入那類新服務？

   __________________________________________________________
   __________________________________________________________
   __________________________________________________________

   ＜問卷完＞
Appendix 6   Interview with Investor Relations Department, MTR

Letter

5 February 2009

Dear Sirs,

Re: Institute of Vocational Education (Tuen Mun) Final Year Project MTR financial performance analysis before and after rail merger.

We are writing to enquire about more information of your company.

We are final year students of High Diploma in Accountancy at IVE (Tuen Mun), and are conducting a research project studying about the daily operation and financial performance of your company before and after the rail merger. In order to ensure our information being reliable and accurate, we would cordially invite your company to provide some information over this issue.

We would be very grateful if you would be able to spare some time and answer our questions. We can ensure you that the information will be used in supplementing our study.

We would be obliged if you could send the reply to us through the e-mail address 081211300@stu.vtc.edu.hk. If you have any query, please do not hesitate to contact our project leader, Miss Ceci Sham, at 6099 1124, or our project supervisor, Mr Tony
Lim, Lecturer of BSM, IVE(TM) with the address Room 443, BSM Department, 18 Tsing Wun Road, Tuen Mun, New Territories, Hong Kong, at phone number 2460 5958. Please give us a reply on or before 28 Feb 2009.

Thank you for your assistance and we look forward to hearing from you soon.

Yours faithfully,

Ms Ceci Sham
Email

From: SHAM Sze Yin [081211300@stu.vtc.edu.hk]

Sent: Mon 3/2/2009 2:31 PM

To: Relations, Corporate

Subject: Re; IVE(Tuen Mun) Final Year Project - MTR Financial Performance Analysis (Urgent)

Dear Financial Controller,

With special reference to the attached files, we are final year students of Institute of Vocational Education (Tuen Mun) for carrying the final year project in your esteemed company.

Due to the fact that our letter (as per attachment) has been posted in the early February, and somehow no reply has been received. We would like to ask for your kind attention for granting us some time in the earliest convenience, and would like to have some questions relating to our project for interviewing with you.

Please let us have reply by returning the e-mail at your earliest convenience. We would be obliged for your kind attention.
From: "Relations, Corporate" <CR@mtr.com.hk>

Date: Tuesday, March 3, 2009 2:36 PM

Subject: RE: Re; IVE(Tuen Mun) Final Year Project - MTR Financial Performance Analysis (Urgent)

Dear Ms Sham,

Thank you for your e-mail which we received on 2 March 2009.

For information on MTR operation and financial performance, you may access our website: mtr.com.hk >Corporate Site>Railway Operations>Investor's Information for details.

Thank you for your interest in the MTR.

Yours sincerely,

Claudia Ho

Public Relations Manager - Customer Care

MTR Corporation
From: SHAM Sze Yin [mailto:081211300@stu.vtc.edu.hk]

Sent: Tue 3/10/2009 4:37 PM

To: Relations, Corporate; Ho, Claudia Sin Ka

Subject: Re: RE: Re; IVE(Tuen Mun) Final Year Project - MTR Financial Performance Analysis (Urgent)

Dear Ms Ho,

As your previous reply of e-mail on 3rd March, we have followed your advice to access the website. Moreover, we would like to ask you further question which we cannot obtain on the web.

1. Are the businesses affected by the financial tsunami in the second half year in 2008?

   If yes, which type of businesses area has been suffered the most?

2. After the financial tsunami, are there any changes in company’s policy in relation to the position and the direction of the long term investment?

3. Are there any leaseholders being forfeited with their deposits in leasing agreement during or after the financial tsunami?
If yes, please state whether there are many.

4. What will the MTR corporation propose to do by referring to any adjustment adjusting of rent for MTR shops after financial tsunami?

For example, freezing the price, decreasing the price or offering the concessionary period.

5. Please explain that which business area would reflect the most successful of rail merger?

6. What is the reason for rail merger at first? Does it achieve the anticipated objective presently?

7. Please clarify the development condition of each new rail link separately.

What is the investment of each? What is the revenue that you would predict from?

8. What would be the purposes of developing of Kowloon Southern Link and Tseung Kwan O Extension (Phase 2)?

How many passengers of them will you expect?

9. When does Shenzhen Metro Line 4 Phase 3 start to construct, and when does Shenzhen Metro Line 4 Phase 3 finish?

Is it for operating control only?

10. What have the situations been for the sales of properties under the Financial
Tsunami?

How much did the profit of property development dropped?

11. What are the major reasons leading the dropping of the Net Profit in the first half of 2008?

We are looking forward to your reply by returning the e-mail at your earliest convenience. We would be obliged for your kind attention.

Yours sincerely,

Ceci SHAM
From: "Relations, Corporate" <CR@mtr.com.hk>

Date: Thursday, March 12, 2009 2:49 PM

Subject: RE: RE: Re; IVE(Tuen Mun) Final Year Project - MTR Financial Performance Analysis (Urgent)

Dear Ms Sham,

Thank you for your e-mail which we received on 11 March 2009.

For information on MTR financial performance, you may access our website: mtr.com.hk >Corporate Site>Investors Information>2008 Annual Results for details.

Thank you for your interest in the MTR.

Yours sincerely,

Claudia Ho

Public Relations Manager - Customer Care

MTR Corporation
Appendix 7   Financial Ratio

Profitability Ratios

Net profit sales percentage

\[
\frac{\text{Net Profit before tax}}{\text{Sales}} \times 100\%
\]

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit before tax</td>
<td>$9,027</td>
<td>$18,265</td>
</tr>
<tr>
<td>Sales</td>
<td>$17,628</td>
<td>$10,690</td>
</tr>
<tr>
<td>Net Profit to sales percentage</td>
<td>$9,027/$17,628 x 100% =51.21%</td>
<td>$18,265/$10,690 x 100% =170.86%</td>
</tr>
</tbody>
</table>

Figure 1.1

Decrease by 119.65%, (or change in 70.03% over year 2007)

Return on owners' equity (before taxation)

\[
\frac{\text{Profit before tax}}{\text{Owners’ equity (ordinary share capital + reserves)}} \times 100\%
\]

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>$9,027</td>
<td>$18,265</td>
</tr>
<tr>
<td>Owner’s equity</td>
<td>$97,822</td>
<td>$91,037</td>
</tr>
<tr>
<td>Return on owners’ equity (before taxation)</td>
<td>$9,027/$97,822 x 100% =9.23%</td>
<td>$18,265/$91,037 x 100% =20.06%</td>
</tr>
</tbody>
</table>

Figure 1.2

Decrease 10.83%, (or change in 53.99% over year 2007)
**Return on capital employed (before taxation)**

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before interest and tax</td>
<td>$9,027+$1,998</td>
<td>$18,265+$1,316</td>
</tr>
<tr>
<td></td>
<td>=$11,025</td>
<td>=$19,581</td>
</tr>
<tr>
<td>Owners’ equity</td>
<td>$97,822</td>
<td>$91,037</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>$22,602 / $33,541 x</td>
<td>$64,631-$16,863</td>
</tr>
<tr>
<td></td>
<td>$29,584</td>
<td>= $47,768</td>
</tr>
<tr>
<td></td>
<td>=$19,936</td>
<td></td>
</tr>
<tr>
<td>Return on capital employed (before taxation)</td>
<td>$11,025/ ($97,822 + $19,936) x 100%</td>
<td>$19,581/ ($91,037+47,768) x 100%</td>
</tr>
<tr>
<td></td>
<td>=9.36%</td>
<td>=14.11%</td>
</tr>
</tbody>
</table>

*Figure 1.3*

Decrease 4.75%, (or change in 33.66% over year 2007)

**Asset turnover ratio**

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$17,628</td>
<td>$10,690</td>
</tr>
<tr>
<td>Net Assets employed</td>
<td>$159,338 - ($59+$1,646+$5,334 +$450+$224+$882+$9,648) = $141,095</td>
<td>$155,668-$46,027 = $109,641</td>
</tr>
<tr>
<td>Asset turnover ratio</td>
<td>$17,628/$141,095 = 0.12</td>
<td>$10,690/$109,641 = 0.0975</td>
</tr>
</tbody>
</table>

*Figure 1.4*

Increase 0.0225,(or change in 23.08% over year 2007)
Short Term Solvency Ratios

**Current ratio (Working capital ratio)**

<table>
<thead>
<tr>
<th>Current assets</th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Current Assets</td>
<td>$471+$10+$2,228+528+$690+ $7,190+$3,720+426+$793</td>
<td>$333+$15+$576+273+64 2+5,167+3,532+544+576</td>
</tr>
<tr>
<td></td>
<td>=$16,056</td>
<td>=$11,838</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$59+$1,646+$5,334+$450+$224 +$882+$9,648</td>
<td>$16,863</td>
</tr>
<tr>
<td></td>
<td>=$18,243</td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>$16,056/$18,243</td>
<td>$11,838/$16,863</td>
</tr>
<tr>
<td></td>
<td>=0.88</td>
<td>=0.70</td>
</tr>
</tbody>
</table>

*Figure 2.1*

Increase 0.18, (or change in 25.71% over year 2007)

**Liquid ratio (Quick ratio or acid test ratio)**

<table>
<thead>
<tr>
<th>Current assets– inventory</th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Current Assets</td>
<td>$471+$10+$2,228+528+$690+ $7,190+$3,720+426+$793</td>
<td>$11,838</td>
</tr>
<tr>
<td></td>
<td>=$16,056</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>$2,228</td>
<td>$756</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$59+$1,646+$5,334+$450+$224 +$882+$9,648</td>
<td>$16,863</td>
</tr>
<tr>
<td></td>
<td>=$18,243</td>
<td></td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>($16,056-$2,228)/$18,243</td>
<td>$(11,838-756)/$16,863</td>
</tr>
<tr>
<td></td>
<td>=0.76</td>
<td>=0.66</td>
</tr>
</tbody>
</table>

*Figure 2.2*

Increase 0.1, (or change in 15.15% over year 2007)
Debtors’ collection period (in days)

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Receivables</td>
<td>$5,818+$598</td>
<td>$4,461</td>
</tr>
<tr>
<td></td>
<td>=$6416</td>
<td></td>
</tr>
<tr>
<td>Credit Sales</td>
<td>$3,449+$2,712</td>
<td>$1,741+$1,834</td>
</tr>
<tr>
<td></td>
<td>=$6,161</td>
<td>=$3,575</td>
</tr>
<tr>
<td>Debtors’ collection</td>
<td>$6,416/ $6,161 x 365</td>
<td>$1,493/ $3,575 x 365</td>
</tr>
<tr>
<td>period (in days)</td>
<td>=380.11 (in days)</td>
<td>=152.43 (in days)</td>
</tr>
</tbody>
</table>

Figure 2.3

Increase 227.68 (in days), (or change in 149.37% over year 2007)

Long-Term Solvency Ratios

Gearing ratio

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term liabilities</td>
<td>$22,602 / $33,541 x $29,584</td>
<td>$22,602</td>
</tr>
<tr>
<td></td>
<td>=$19,936</td>
<td></td>
</tr>
<tr>
<td>Owners' equity</td>
<td>$95,053</td>
<td>$80,297</td>
</tr>
<tr>
<td>Gearing ratio</td>
<td>$19,936/($95,053+$19,936)x 100%</td>
<td>$22,602/($22,602+$80,297)x 100%</td>
</tr>
<tr>
<td></td>
<td>=17.34%</td>
<td>=21.97%</td>
</tr>
</tbody>
</table>

Figure 3.1

Decrease 4.63 %, (or change in 21.07% over year 2007)
Interest cover

Profit before interest and tax

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before interest and tax</td>
<td>$9,027 + $1,998</td>
<td>$18,265 + $1,316</td>
</tr>
<tr>
<td></td>
<td>=$11,025</td>
<td>=$19,581</td>
</tr>
<tr>
<td>Interest</td>
<td>$1,998</td>
<td>$1,316</td>
</tr>
<tr>
<td>Interest cover</td>
<td>$11,025 / $1,998</td>
<td>$19,581 / $1,316</td>
</tr>
<tr>
<td></td>
<td>=5.52 times</td>
<td>=14.88 times</td>
</tr>
</tbody>
</table>

Figure 3.2

Decrease 9.36 times, (or change in 62.90% over year 2007)
Investment Ratios

Price-Earnings Ratio (P/E Ratio)

\[
P/E \text{ Ratio} = \frac{\text{Price Per Share}}{\text{Earnings Per Share}}
\]

Where

\[
\text{Earnings Per Share} = \frac{\text{Net Income}}{\text{Number of Shares Outstanding}}
\]

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to equity shareholders</td>
<td>$8,284</td>
<td>$15,180</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares</td>
<td>$5,633</td>
<td>$5,574</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>$8,284/$5,633</td>
<td>$15,180/$5,574</td>
</tr>
<tr>
<td></td>
<td>=1.47</td>
<td>=2.72</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market price per share</td>
<td>$17.92</td>
<td>$28.7</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>$1.47</td>
<td>$2.72</td>
</tr>
<tr>
<td>Price-Earnings Ratio</td>
<td>$17.92/$1.47</td>
<td>$28.7/$2.72</td>
</tr>
<tr>
<td></td>
<td>=12.19</td>
<td>=10.55</td>
</tr>
</tbody>
</table>

Figure 4.1

Increase 2.36, (or change in 22.37% over year 2007)
Dividend cover

Profit before tax – preference dividends

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>$9,027</td>
<td>$18,265</td>
</tr>
<tr>
<td>Preference dividends</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Ordinary dividends</td>
<td>$1,925</td>
<td>$1,740</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>$9,027/$1,925</td>
<td>$18,265/$1,740</td>
</tr>
<tr>
<td></td>
<td>=4.69 times</td>
<td>=10.50 times</td>
</tr>
</tbody>
</table>

Figure 4.2

Decrease 5.81 times, (or change in 55.33% over year 2007)

Dividend yield

\[
\text{Dividend yield} = \frac{\text{Ordinary dividend per share}}{\text{Market price per share}} \times 100\%
\]

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($million)</th>
<th>31 Dec 2007 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary dividend per share</td>
<td>$0.34</td>
<td>$0.45</td>
</tr>
<tr>
<td>Market price per share</td>
<td>$17.96</td>
<td>$28.7</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>$0.34/$17.96 x 100%</td>
<td>$0.45/$28.7 x 100%</td>
</tr>
<tr>
<td></td>
<td>=1.89%</td>
<td>=1.57%</td>
</tr>
</tbody>
</table>

Figure 4.3

Increase 0.32%, (or change in 28.38% over year 2007)
Analysis of Investment Ratios of MTR

*Price-Earnings Ratio (P/E Ratio)*

<table>
<thead>
<tr>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Price-Earnings Ratio (P/E Ratio)</td>
</tr>
</tbody>
</table>

The price-earnings ratio lightly increased. By comparing that ratio for MTR, 2008 is higher than 2007. It indicated that the investors had a higher expected earnings growth of MTR even after merger since 12.19 met the standard of public corporation which is around 10 to 25. Thus, MTR is a highly attractive investment.

*Dividend cover*

<table>
<thead>
<tr>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>Dividend cover</td>
</tr>
</tbody>
</table>

Though the ordinary dividends after merger were higher than those before merger, profit before tax in 2008 was lower than those in 2007. The lower revenue might be affected by property in 2008. According to findings in financial report, property revenue has been diminishing due to financial tsunami. It disclosed that it might affect the financial and economic activities such as stock exchange and property market. In spite of the decreasing percentage, the ratio still maintained more than 2 which is considered safe. MTR can well afford the dividend even the coming year.
Therefore, the shareholders can be satisfied with future dividends received.

**Dividend yield**

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>1.89%</td>
</tr>
</tbody>
</table>

The dividend yield increased from 2007 to 2008. Ordinary dividends per share had been kept constant that MTR might need to retain funds for investment or others. Since the market price had been decreasing to $10.74 due to MTR rail merging effect, the overall dividend yield rate was increased in 2008. Although Dividend yield increased, we also need to see the market price, which decreased 37.42%. The cause of decreasing market price was affected by financial tsunami and then it made dividend decrease. It was not a good result.
KMB

Profitability Ratios

Net profit sales percentage

\[
\text{Net Profit before tax \times 100\%} / \text{Sales}
\]

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($thousand)</th>
<th>31 Dec 2007 ($thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit before tax</td>
<td>$693,671</td>
<td>$4,073,937</td>
</tr>
<tr>
<td>Sales</td>
<td>$7,353,086</td>
<td>$12,013,479</td>
</tr>
<tr>
<td>Net Profit to sales percentage</td>
<td>$693,671/$7,353,086 x 100%</td>
<td>$4,073,937/$12,013,479 x 100%</td>
</tr>
<tr>
<td></td>
<td>= 9.43%</td>
<td>= 33.91%</td>
</tr>
</tbody>
</table>

Figure 5.1

Decrease 24.48%, (Or change in decrease 72.19% over year 2007)

Return on owners’ equity (before taxation)

\[
\text{Profit before tax \times 100\%} / \text{Owners’ equity (ordinary share capital + reserves)}
\]

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2008 ($thousand)</th>
<th>31 Dec 2007 ($thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax</td>
<td>$693,671</td>
<td>$4,073,937</td>
</tr>
<tr>
<td>Owner’s equity</td>
<td>$403,639 + $6,257,184 = $6,660,823</td>
<td>$403,639 + $7,145,289 = $7,548,928</td>
</tr>
<tr>
<td>Return on owners’ equity (before taxation)</td>
<td>$693,671/$6,660,823 x 100%</td>
<td>$4,073,937/$7,548,928 x 100%</td>
</tr>
<tr>
<td></td>
<td>= 10.41%</td>
<td>= 53.97%</td>
</tr>
</tbody>
</table>

Figure 5.2

Decrease 43.56%, (Or change in decrease 80.71% over year 2007)
**Return on capital employed (before taxation)**

<table>
<thead>
<tr>
<th>Profit before interest and tax</th>
<th>31 Dec 2008 ($thousand)</th>
<th>31 Dec 2007 ($thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before interest and tax</td>
<td>$693,671+$32,614</td>
<td>$4,073,937+$118,756</td>
</tr>
<tr>
<td>Owners’ equity</td>
<td>$6,660,823</td>
<td>$7,548,928</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>$589,748</td>
<td>$1,154,664</td>
</tr>
<tr>
<td>Return on capital employed (before taxation)</td>
<td>$726,285/ ($6,660,823 + $589,748) x 100%</td>
<td>$4,192,693/ ($7,548,928+$1,154,664) x 100%</td>
</tr>
</tbody>
</table>

=10.02%  
=48.17%

**Figure 5.3**

Decrease 38.15%, (Or change in decrease 79.20% over year 2007)
**Asset turnover ratio**

Sales

<table>
<thead>
<tr>
<th>Net Assets employed (Total assets – current liabilities)</th>
<th>31 Dec 2008 ($thousand)</th>
<th>31 Dec 2007 ($thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$7,353,086</td>
<td>$12,013,479</td>
</tr>
<tr>
<td>Net Assets employed</td>
<td>$10,287,027 – $1,876,613</td>
<td>$11,933,814-$1,936,703</td>
</tr>
<tr>
<td></td>
<td>= $8,410,414</td>
<td>=$9,997,111</td>
</tr>
<tr>
<td>Asset turnover ratio</td>
<td>$7,353,086/$8,410,414</td>
<td>$12,013,479/$9,997,111</td>
</tr>
<tr>
<td></td>
<td>= 0.87</td>
<td>=1.20</td>
</tr>
</tbody>
</table>

*Figure 5.4*

Decrease 0.33, (Or change in decrease 27.5% over 2007)
Short Term Solvency Ratios

Current ratio (Working capital ratio)

<table>
<thead>
<tr>
<th>Current assets</th>
<th>31 Dec 2008 ($thousand)</th>
<th>31 Dec 2007 ($thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Current Assets</td>
<td>$10,287,027</td>
<td>$11,933,814</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$1,876,613</td>
<td>$1,936,703</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>$10,287,027/$1,876,613 = 5.48</td>
<td>$11,933,814/$1,936,703 = 6.16</td>
</tr>
</tbody>
</table>

Figure 6.1

Decrease 0.68, (Or change in decrease 11.04% over 2007)
MTR Financial Performance analysis – Before and After Rail Merger and Future Development Strategies

By
Chan Shuk Kuen
Choy Wai Ting
Lee Pui Kwan
Sham Sze Yin
Wong Wing Yan

21901T/1B (T9)
(08/09 Final Year Project)
Background of MTR

• One of the world's leading Mass transport services

• On 02/12/2007, MTR merged with KCRC

• Rail merger activity brings new growth opportunities

• More convenience to passengers through better interchange arrangements

• Enhancing the ability & potential in connecting with a railway route on the Mainland

• Promoting to a world class Railway Company

• Consolidating HK's status being a Asia's World City
Objectives

• By discussing and analyzing the reasons of how MTR getting the higher market share in the public transport

• By analyzing the profits from its operation arising from years 2007 to 2008

• By summarizing how the future development plans beneficial to MTR in the financial way
Financial Analysis

- Financial Ratios
- Benchmarking with KMB
Profitability Ratios
(Note: KMB was used as Industry Benchmark)
## Net profit sales percentage

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit sales percentage</td>
<td>51.21%</td>
<td>170.86%</td>
</tr>
</tbody>
</table>

- ↓120%
- Decreased by 70% over 2007

**Problem:**
Expenses increased
- staff costs
- expenses (station commercial & rail related businesses)
Advantages of MTR

• Higher capability to generate the profits
• Control of expenses efficiently
• More competitive advantages
• Strengthens its market position
Return on owners’ equity (before taxation)

<table>
<thead>
<tr>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on owners’ equity (before taxation)</td>
<td>9.23%</td>
</tr>
</tbody>
</table>

• ↓11%
• Decreased by 54% over 2007

**Problem:**
• Financial tsunami made the profit decreased
• Paid fewer final dividends
• Investors may not invest more
Return on capital employed (before taxation)

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>9.36%</td>
<td>10.02%</td>
</tr>
<tr>
<td>2007</td>
<td>14.11%</td>
<td>48.17%</td>
</tr>
</tbody>
</table>

- ↓5%
- Decreased by 34% over 2007

Problem:
- Lack of efficiency use of capital
- Return might not have sufficient money to cover the cost of capital
Asset turnover ratio

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
<th>KMB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008: 0.12</td>
<td>2008: 0.87</td>
</tr>
<tr>
<td></td>
<td>2007: 0.0975</td>
<td>2007: 1.20</td>
</tr>
</tbody>
</table>

- ↑0.0225
- Increased by 23% over 2007

- Shareholders might be happy to see the improvement in profitability
Benchmarking with KMB

Advantages of MTR

- Better return than KMB to shareholders (ROA, ROE)
- Better operating ability (Asset Turnover)
Short Term Solvency Ratios
**Current ratio and Liquid ratio**

<table>
<thead>
<tr>
<th></th>
<th>MTR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Current ratio (Working capital ratio)</td>
<td>0.88</td>
</tr>
<tr>
<td>Liquid ratio (Quick ratio or acid test ratio)</td>
<td>0.76</td>
</tr>
</tbody>
</table>

**Current ratio**
- ↑0.18
- Increased by 26% over 2007

**Liquid ratio**
- ↑0.1
- Increased by 15% over 2007

**Problem:**
- Below the average standard of 1
- Having liquidity problem in paying short-term liabilities
Debtors’ collection period (in days)

Problem:
• Increase the risk of collection short-term debts
Long Term Solvency Ratios
### Gearing ratio

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gearing ratio</td>
<td>17.34%</td>
<td>21.97%</td>
</tr>
</tbody>
</table>

- ↓5%
- Decreased by 21% over 2007

**Suggestion:**
- Potentiality to raise their debts to finance some more investments
Interest cover

<table>
<thead>
<tr>
<th>MTR</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cover</td>
<td>5.52 times</td>
<td>14.88 times</td>
</tr>
</tbody>
</table>

- ↓9 times
- Decreased by 63% over 2007

Problem:
- Did not own sufficient profit to cover interest expense due to poor market conditions
- High financial risk may be resulted
Marketing Analysis

- Survey
- Market Share
- SWOT Analysis
Marketing Analysis (Survey)
The popular transportation preferred by interviewees

Findings:
- MTR owns an important status
- Essential means of transport
Frequency of taking MTR after rail merger event

Increase the frequency of taking MTR after the rail merger event

- Yes: 56%
- No: 44%

Reasons
- Cheaper: 35%
- MTR system reliability: 15%
- Travelling time saved: 18%
- MTR system integrality: 29%
- Others: 3%

Findings:
- Attract more passengers
- Reasons – cheaper, integrity, reliability
MTR’s fare before and after merger

**Before:**
- Reasonable & quite high
- Accepted by the public

**After:**
- Fare concession necessary
- Quite attractive
**MTR's reputation in forms of reliability and speed**

**Findings:**
- Normal & good reputation
- Score a high ranking
Marketing Analysis (Market Share)
Before
• Market share of franchised buses 54%
• 36% larger than MTR

After
• Market Share of MTR sharply ↑34%
• Franchised buses ↓40%
Reasons of raising market share

Integrated networking

- Consolidated good reputation
- Time saving
- Lets passengers go to the destination directly
Summary

After Rail merger, MTR

- Achieved massive & positive change in MTR’s market share
- Own the largest market share in rail transport industry
- The representative of HK public mass rail transportation
Marketing Analysis
(SWOT Analysis)
Internal

Strengths

● Diversification of business
● Good public image and reputation
● Wider transportation network

Weaknesses

● Uncertainties occurred in rail merger
● The effects of the management base after rail merger
Opportunities

- Development in both local & international business
- Providing concessionary for lessee during financial tsunami
- Reduction of fare after rail merger

Threats

- Fluctuation of property value in financial tsunami
- Influence the MTR investors’ confidence
Conclusion
Marketing & Financial
Operational

- Enhance market share and position
- Enjoy economy of scale
- Attain more integrated networking
Financial

Rail

- Huge growth of revenue in 2008
- About $11.5 billion and ↑61%
- Over $350 million synergies attained in business expansion

- Successful merger
- Reducing fares
- Integrating rail networks
Property

- Huge growth of revenue in 2008
- About $5 billion and ↓50%

- Stopping to promote and sell currently
- Obtaining a pleased growth during economic recovery afterward
Controlling the expenses

- Net profits ↓50%
- Synergy attained in business expansion
- Huge expenses incurred
Dissatisfying in short-term solvency

• Improving short-term solvency

• Current ratio below the standard of 1

• Have not sufficient assets to cover the short-term debts

• Not able to turnover immediately in emergency case during short-term period

• Long debtors’ collection period

• Occurring risk of bad debts
Looking for effective solution

- Having a pleased growth of net assets
- Financial performance not reach the expectation of market view dissatisfactory
- Management should concentrate their effort and rally the direction
Future Plan
Service

**MTR planned improvement in future:**

- To install screen doors
- Green light system
Our recommendations

• Set up washrooms
• Set up internet-free access services
• Regain Monthly Pass
• Set up medical rooms for urgent treatment
• Providing umbrella borrowing service
• Establishing special compartment for female passengers
Progressing lines

Kowloon Southern Link

- Set up Austin station
- East rail and West rail linked

Benefits:
- Reduce traffic jams
- Time saving
- Convenient travelers
Tseung Kwan O Extension (Phase 2)
• Extended to LOHAS Park Station
• Serving new residents

Benefits:
- Integrated urban planning
- Provide enormous potential development opportunities
- Lead more property appreciation opportunity
Further Planning and Design

Shatin to Central Link (SCL)  Kwun Tong Line Extension
Further Planning and Design

West Island Line (WIL)  South Island Line (SIL) (East)
Overseas Railway Services
Operate Stockholm Metro

- Concession rights start from 2\textsuperscript{nd} Nov, 2009
  - Train and station operations
  - Train maintenance
  - Worth $20 billion in 8 years

- Contain of 3 lines & 100 stations

- Serve around 1.2 million people
Advantages from this operation:

- International recognition
- Confirmation of MTR’s management ability
- Attainment of high reliability of train services
MTR System Map Now and Future