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## **MTR CORPORATION LIMITED**

### **香港鐵路有限公司**

(the "Company")

*(Incorporated in Hong Kong with limited liability)*

(Stock code: 66)

#### **INSIDE INFORMATION**

#### **REVIEW OF FARE ADJUSTMENT MECHANISM**

The Company announces that the Early Review of the Fare Adjustment Mechanism has been completed. A summary of the outcome of the Early Review is set out below.

- (A) The Company and Government have agreed to maintain the current FAM formula and the direct-drive nature of the FAM formula, save for certain consequential changes as a result of the Early Review having been advanced by one year, as further set out in the section headed "Consequential changes as a result of the Early Review" below.
- (B) The Company will introduce a new "3% Rebate for Every Octopus Trip" scheme (to replace the current "10% Same Day Second Trip Discount" scheme), a two-way MTR-GMB interchange discount (subject to the Company further discussing and agreeing the implementation details with GMB operators) and will continue the Monthly Passes Extra, MTR City Saver and Affordability-Linked Arrangement, as further set out in the section headed "Fare concessions and promotions" below.
- (C) The Company and Government have agreed to certain special applications to the calendar years 2017 to 2022 which affect the rate of adjustment to the fares in each such calendar year, as further set out in the section headed "Special applications from 2017 to 2022" below.

This announcement is made pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Reference is made to the Company's announcements dated 23 March 2016 and 20 April 2016 in relation to the advancing by one year of the next scheduled joint review by the Company and Government of the Fare Adjustment Mechanism which would have otherwise been due in 2018 (the "Early Review"). The Company announces that such review has been completed and the outcome of the Early Review is set out below.

**Consequential changes as a result of the Early Review**

The existing FAM requires the Company to adjust its fares according to a pre-determined formula based on changes in the composite consumer price index and the wage index, and a productivity factor. As disclosed in the Company's announcement dated 16 April 2013, the existing FAM formula, as amended pursuant to the review of the FAM in 2013, works as follows:

**"Overall weighted fare adjustment rate = 0.5 \* Δ CCPI + 0.5 \* Δ wage index – t"**

where:

"Overall weighted fare adjustment rate" is calculated based on the basket of specified "fares" on the Integrated Railway (as defined in the Merger Circular);

"Δ CCPI" means the yearly percentage change in the Government Composite Consumer Prices Index;

"Δ wage index" means the yearly percentage change in the Nominal Wage Index (Transportation Sector); and

"t" shall have the value:

(a) zero up to the implementation of the FAM in 2012; and

(b) thereafter, the greater of:

(1) 0.5 \* CAGR in Productivity in the Reference Period expressed as a percentage and rounded to the nearest one tenth of a percentage; and

(2) zero

where:

"CAGR" means compound annual growth rate;

"Productivity" is revenue from the Company's Hong Kong transport operations divided by the Company's expenses relating to Hong Kong transport operations, as set out in the Company's audited financial statements for the first and last financial years of the Reference Period (but subject to adjustments due to changes in accounting standards and segmental reporting between the two relevant financial years); and

“Reference Period” (a) in respect of each of the calendar years 2013 to 2017, is the financial years 2008 to 2012; and (b) in respect of each of the calendar years 2018 to 2022, is the financial years 2012 to 2017. Thereafter, for each successive 5 calendar years, in respect of each calendar year in such 5-year period, the Reference Period is the 6 financial years immediately preceding that 5-year period.

As a consequence of the Early Review having been advanced by one year, the Company and Government have agreed to amend the FAM such that the “Reference Period” in respect of each of the calendar years 2013 to 2016, is the financial years 2008 to 2012, in respect of each of the calendar years 2017 to 2022, is the financial years 2012 to 2016 and, in respect of each of the calendar years 2023 to 2027, is the financial years 2016 to 2022.

For reference, the value of “t” (the productivity factor) in respect of each of the calendar years 2017 to 2022 with reference to the Reference Period, as amended, will be zero.

All other aspects of the FAM as disclosed in the Company’s announcement dated 16 April 2013 remain unchanged (subject to the special applications described below).

#### **Fare concessions and promotions**

Each year since the Rail Merger (and in certain years prior to the Rail Merger), the Company has introduced fare concessions and promotions.

In accordance with the existing provisions of the Operating Agreement, the Company will introduce, or continue to make available, a number of fare concessions (in the form of promotions). These comprise:

##### **(A) Monthly Passes Extra**

The (i) Tung Chung – Nam Cheong Monthly Pass Extra and (ii) the 25% discount available under the existing monthly passes extra on the excess fare for all onward journeys (excluding journeys on the Airport Express Line and journeys to and from Lo Wu and Lok Ma Chau stations) beyond the valid stations for the relevant monthly passes extra, which were introduced by the Company in 2013, will continue to be available.

##### **(B) MTR City Saver**

The MTR City Saver, which was introduced by the Company in 2013, will continue to be available. The MTR City Saver is a multi-journey smart card entitling each holder to 40 journeys to and from any stations within the urban areas of Hong Kong.

The validity period of a MTR City Saver will, with effect from 1 July 2017, be extended from 30 days to 40 days.

(C) 3% Rebate for Every Octopus Trip

The Company will introduce fare concessions through a “3% Rebate for Every Octopus Trip” scheme whereby the Company will, for a minimum period of 6 months, grant a 3% rebate on Octopus fares for every trip (excluding any trip on the Airport Express Line or the Intercity Passenger Service). This scheme will be implemented in each calendar year, irrespective of whether the fares are required to be adjusted pursuant to the FAM in that calendar year. The “3% Rebate for Every Octopus Trip” scheme (the “**New Scheme**”) will replace the current “10% Same Day Second Trip Discount” scheme (the “**Old Scheme**”).

Similar to the Old Scheme, the amount of fare concessions under the New Scheme will be determined by reference to (i) the consolidated profit of the Company attributable to its equity shareholders arising from its underlying business (excluding profits and losses arising from investment property revaluations) (the “**Underlying Business Profit**”) and (ii) the number and duration of certain train service disruptions on the railway, in each case, in the previous financial year. Subject to certain conditions, the total amount of concessions to be applied by the Company will be determined in accordance with the tables set out below:

*(i) Profitability-Linked Arrangement*

<b>Underlying Business Profit</b>	<b>Amount of concessions</b>
Below HK\$5,000,000,000	0
equal to or more than HK\$5,000,000,000 but less than HK\$6,000,000,000	HK\$75,000,000
equal to or more than HK\$6,000,000,000 but less than HK\$7,000,000,000	HK\$100,000,000
equal to or more than HK\$7,000,000,000 but less than HK\$8,000,000,000	HK\$125,000,000
equal to or more than HK\$8,000,000,000 but less than HK\$9,000,000,000	HK\$150,000,000
equal to or more than HK\$9,000,000,000 but less than HK\$10,000,000,000	HK\$175,000,000
equal to or more than HK\$10,000,000,000 but less than HK\$11,000,000,000	HK\$200,000,000
equal to or more than HK\$11,000,000,000 but less than HK\$12,000,000,000	HK\$225,000,000
equal to or more than HK\$12,000,000,000 but less than HK\$13,000,000,000	HK\$250,000,000

equal to or more than HK\$13,000,000,000 but less than HK\$14,000,000,000	HK\$275,000,000
equal to or more than HK\$14,000,000,000 but less than HK\$15,000,000,000	HK\$300,000,000
equal to or more than HK\$15,000,000,000	HK\$325,000,000

Compared to the Old Scheme:

- (a) the amount of concessions in respect of each of the band of Underlying Business Profit in the above table has been increased by HK\$25,000,000 under the New Scheme; and
- (b) the previous cap on the amount of concessions under the Profitability-Linked Arrangement has been raised from HK\$250,000,000 to HK\$325,000,000 under the New Scheme.

*(ii) Service Performance-Linked Arrangement*

<b>For each train service disruption</b>	<b>Amount of concessions per train service disruption</b>
equal to or more than 31 minutes but less than or equal to one hour	HK\$1,000,000
more than one hour but less than or equal to two hours	HK\$2,000,000
more than two hours but less than or equal to three hours	HK\$3,000,000
more than three hours but less than or equal to four hours	HK\$5,000,000
each additional hour (or part thereof) exceeding four hours	HK\$2,500,000 provided that the overall amount per any single train service disruption shall not exceed HK\$25,000,000

Compared to the Old Scheme, the previous cap on the amount of concessions per single train service disruption under the Service Performance-Linked Arrangement has been raised from HK\$15,000,000 to HK\$25,000,000 under the New Scheme.

The New Scheme will be implemented in each calendar year for a minimum period of 6 months. If, in any calendar year, the total amount available for the New Scheme, as determined in accordance with the tables set out above, is insufficient to fund the scheme for the minimum period of 6 months, the Company will apply such further sum to fund the concessions pursuant to the scheme as is required to ensure that the scheme will be

implemented for the minimum period of 6 months.

(D) Affordability-Linked Arrangement

Promotions in the form of “affordability discounts”, which were introduced by the Company in 2013, will continue to be available. Such promotions ensure that, subject to certain conditions, the rate of increase in the average price of fares (taking into account affordability discounts) will not exceed the rate of increase in the MMHI year-on-year (assuming that the rate of increase in the MMHI is positive). As announced by the Company on 16 April 2013, the withdrawal of affordability discounts will be subject to certain restrictions in order to smooth the effect of the withdrawal over a period of time.

(E) Two-way MTR-GMB Interchange Discount

Subject to the Company further discussing and agreeing the implementation details with GMB operators, the Company will introduce two-way MTR-GMB interchange discounts whereby passengers using an Octopus card changing from the railway to a GMB route (for which there is no existing MTR-GMB interchange discount arrangement in place) will receive a HK\$0.3 discount per such GMB ride, and vice versa.

The promotions set out in (A) and (B) are expected to continue to be available or be implemented (as the case may be) with effect from a date on or before 1 July 2017. The promotions set out in (C) and (D) are expected to be implemented, in respect of calendar year 2017, with effect from a date on or before 1 July 2017 and, in respect of each of calendar years 2018 to 2022, with effect from the date on which fares are adjusted in accordance with the FAM in that calendar year (or, if fares are not required to be adjusted in accordance with the FAM in a relevant calendar year, a date in June of that calendar year to be agreed between the Company and Government in writing at least seven days in advance). The promotion set out in (E) is expected to be implemented on a date to be agreed between the Company and Government in writing at least seven days in advance. Each of the promotions set out above will be terminated with effect from 1 July 2023 unless renewed by the Company prior to that date.

As a result of the implementation of the above fare concessions and promotions, for the period from mid-2017 to mid-2018, the Company expects to forego revenues of approximately HK\$445 million (compared to the Company’s estimated revenue for the same period in the scenario where, in respect of that period, neither: (i) the above fare concessions and promotions; nor (ii) the fare concessions and promotions set out in the Company’s announcement dated 16 April 2013, are implemented), on the basis of fares after taking into account the effect of (a) the consequential changes regarding the “Reference Period” set out in the section headed “Consequential changes as a result of the Early Review” above such that the productivity factor in respect of 2017/18 will be zero and (b) the special applications in

respect of 2017/18 set out in the section headed “Special applications from 2017 to 2022” below and assuming that the Rollover Provisions (as defined below) are not applicable to 2017/18. This revenue foregone represents approximately 1.0% of the total revenue of the Company and its subsidiaries in 2016.

**Special applications from 2017 to 2022**

The Company and Government have agreed to the following special applications from 2017 to 2022:

- (a) the rate of any adjustment to the fares in calendar year 2017 pursuant to the FAM shall be reduced by 0.6 of a percentage point followed by an overall 10% discount; and
- (b) the rate of any adjustment to the fares in each of calendar years 2018 to 2022 pursuant to the FAM shall be reduced by 0.6 of a percentage point.

By way of example:

- (1) if the year on year percentage change in fares required to be imposed in calendar year 2017 as a result of the application of the FAM before taking into account the effect of the special applications is +2.6%, then, by virtue of such special applications, the fares will be adjusted by +1.8% in calendar year 2017 (being the result of subtracting 0.6% from +2.6% and then discounting the difference (+2.0%) by 10% (i.e.  $+2.0\% \times (1 - 10\%) = +1.8\%$ )); and
- (2) if the year on year percentage change in fares required to be imposed in calendar year 2018 as a result of the application of the FAM before taking into account the effect of the special applications is +2.6%, then, by virtue of such special applications, the fares will be adjusted by +2.0% in calendar year 2018 (being the result of subtracting 0.6% from +2.6%).

The manner of application pursuant to paragraphs (a) and (b) above shall apply prior to, and without prejudice to, the operation of other provisions in the FAM, including provisions (“**Rollover Provisions**”) which have the effect of rolling over adjustments to fares to the subsequent calendar year (and any other subsequent calendar year(s), if applicable) where the increase or reduction (as the case may be) to the fares otherwise required to be imposed pursuant to the FAM in any calendar year is less than 1.5%.

As a result of the implementation of the above special applications, for the period from mid-2017 to mid-2018, the Company expects to forego revenues of approximately HK\$142 million (compared to the Company’s estimated revenue for the same period in the scenario where: (i)

the above special applications are not implemented in respect of that period; (ii) the consequential changes regarding the "Reference Period" set out in the section headed "Consequential changes as a result of the Early Review" above have taken effect prior to the commencement of that period such that the productivity factor in respect of 2017/18 will be zero; and (iii) the Rollover Provisions (as defined above) are not applicable to 2017/18). This revenue foregone represents approximately 0.3% of the total revenue of the Company and its subsidiaries in 2016.

The Company and Government have agreed that the scheduled review of the FAM originally due in 2017/18 will not be undertaken and the next scheduled review will be in 2022/23.

### **General**

The Directors of the Company (other than the Directors that were appointed by Government pursuant to section 8 of the MTR Ordinance or hold a position in Government, being Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), Permanent Secretary for Development (Works) (Hon Chi-keung) and Commissioner for Transport (Ingrid Yeung Ho Poi-yan)) have concluded that the above arrangements and the introduction or continuation of the fare concessions and promotions, are in the best interests of the Company as a whole. Accordingly, they approved the entry by the Company into the above arrangements and the introduction or continuation of the fare concessions and promotions. The Directors that were appointed by Government pursuant to section 8 of the MTR Ordinance or who hold a position in Government were not present at the relevant Board meeting when the above arrangements and the introduction or continuation of the fare concessions and promotions were approved by the Board.

### **Definitions**

"Board"	means the board of Directors.
"Company"	means MTR Corporation Limited.
"Directors"	means the directors of the Company.
"Fare Adjustment Mechanism" or "FAM"	means the fare adjustment mechanism contained in the Operating Agreement.
"Government"	means the Government of the Hong Kong Special Administrative Region.
"GMB"	means scheduled services of public light buses.



“Merger Circular”	means the Company’s circular dated 3 September 2007 in respect of the rail merger between the Company and the Kowloon-Canton Railway Corporation.
“MTR Ordinance”	means the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong).
“Operating Agreement”	means the Operating Agreement dated 9 August 2007 made between the Company and the Secretary for Transport and Housing for and on behalf of Government, as amended.
“Rail Merger”	means the merger of the operations of the Company and the Kowloon-Canton Railway Corporation, as contemplated in the Merger Circular.
“rate of increase in the MMHI”	means the year on year change in Median Monthly Household Income for the fourth quarter of the prior year as obtained from the Quarterly Report on General Household Survey issued by the Census and Statistics Department.

By order of the Board  
**Gillian Elizabeth Meller**  
*Company Secretary*

Hong Kong, 21 March 2017

As at the date of this announcement:

*Members of the Board:* Professor Frederick Ma Si-hang (*Chairman*)\*\*, Lincoln Leong Kwok-kuen (*Chief Executive Officer*), Pamela Chan Wong Shui\*, Dr Dorothy Chan Yuen Tak-fai\*, Vincent Cheng Hoi-chuen\*, Anthony Chow Wing-kin\*, Dr Eddy Fong Ching\*, James Kwan Yuk-choi\*, Lau Ping-cheung, Kaizer\*, Lucia Li Li Ka-lai\*, Alasdair George Morrison\*, Ng Leung-sing\*, Abraham Shek Lai-him\*, Benjamin Tang Kwok-bun\*, Dr Allan Wong Chi-yun\*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)\*\*, Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)\*\*, Permanent Secretary for Development (Works) (Hon Chi-keung)\*\* and Commissioner for Transport (Ingrid Yeung Ho Poi-yan)\*\*

*Members of the Executive Directorate:* Lincoln Leong Kwok-kuen, Jacob Kam Chak-pui, Margaret Cheng Wai-ching, Morris Cheung Siu-wa, Peter Ronald Ewen, Herbert Hui Leung-wah, Adi Lau Tin-shing, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai, Philco Wong Nai-keung and Jeny Yeung Mei-chun

\* *independent non-executive Director*

\*\* *non-executive Director*

*This announcement is made in English and Chinese. In case of any inconsistency, the English version shall prevail.*