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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**

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 announcement dated 26 March 2013 in relation to the five-yearly review of the Fare Adjustment Mechanism by the Company and Government in accordance with the Operating Agreement. The Company announces that such review has been completed and (i) the Company and Government have today agreed to amend the FAM by introducing a formula to determine the "productivity factor" (which is a component of the FAM formula); and (ii) the Company will also implement certain fare concessions and promotions. Details of the amendment to the FAM and the fare concessions and promotions are set out below.

#### **Amendment of the FAM**

##### The existing FAM formula

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 on page 17 of the Merger Circular, the existing FAM formula 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 (as defined in the Merger Circular);

“Δ wage index” means the yearly percentage change in the Nominal Wage Index (Transport Services Sector) (as defined in the Merger Circular); and

“t” (being the productivity factor) will be deemed to be zero in the first five years following the Merger Date. “t” will have a value of 0.1% starting from the sixth year following the Merger Date. Under the original terms of the Operating Agreement, “t” would not be subject to review until after the ninth anniversary of the Merger Date.

As can be seen from the FAM formula, the higher the value of “t”, the lower the overall weighted fare adjustment rate.

#### The amended FAM formula

On 16 April 2013, the Company and Government agreed to amend the FAM formula in one respect, by the introduction of a formula for the determination of the productivity factor. Accordingly, the definition of the productivity factor (which is referred to as “t”) will be replaced with the following formula:

“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.

By way of example, in applying the above formula, the value of “t” will be 0.6% for the purposes of the implementation of the FAM in 2013. The overall weighted fare adjustment rate for 2013 under the existing FAM formula would be 3.2%. Under the amended FAM formula, the overall weighted fare adjustment rate for 2013 is 2.7% (which is expected to result in approximately HK\$70 million of revenues forgone from mid-2013 to mid-2014).

All other aspects of the FAM as disclosed in the Merger Circular remain unchanged.

### **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 a number of fare concessions (in the form of promotions). These comprise:

#### **(A) Tung Chung – Nam Cheong Monthly Pass Extra**

The Company will introduce a Tung Chung – Nam Cheong Monthly Pass Extra which entitles its holder to an unlimited number of trips on the Tung Chung Line within the section between Tung Chung station to Nam Cheong station and vice versa for a one calendar month period. The initial cost of this pass will be HK\$360 (subject to future adjustments).

#### **(B) Monthly Pass Extra**

The Company will upgrade existing monthly passes and the above Tung Chung – Nam Cheong Monthly Pass Extra to entitle holders of such passes to a 25% discount on the excess fare for any onward domestic journeys (excluding journeys on the Airport Express Line and journeys to or from Lo Wu and Lok Ma Chau stations) beyond the valid stations for the relevant monthly pass.

#### **(C) MTR City Saver**

The Company will introduce a multi-journey smart card which will entitle each holder to 40 journeys to and from any stations within the urban areas of Hong Kong within a 30 day period (calculated from (and including) the first day of usage of such smart card). The initial cost of

this smart card will be HK\$400 (subject to future adjustments).

(D) 10% Same Day Second Trip Discount

The Company will introduce additional fare concessions through the existing “10% Same Day Second Trip Discount” whereby the Company will grant a 10% discount on second trips regardless of the railway line taken by a passenger on the same day (however, this discount scheme will not apply to trips (whether as a first trip or second trip) on the Airport Express Line, the Express Rail Link (if operated by the Company) or the Intercity Passenger Service). The amount of such additional fare concessions 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:

<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\$50,000,000
equal to or more than HK\$6,000,000,000 but less than HK\$7,000,000,000	HK\$75,000,000
equal to or more than HK\$7,000,000,000 but less than HK\$8,000,000,000	HK\$100,000,000
equal to or more than HK\$8,000,000,000 but less than HK\$9,000,000,000	HK\$125,000,000
equal to or more than HK\$9,000,000,000 but less than HK\$10,000,000,000	HK\$150,000,000
equal to or more than HK\$10,000,000,000 but less than HK\$11,000,000,000	HK\$175,000,000
equal to or more than HK\$11,000,000,000 but less than HK\$12,000,000,000	HK\$200,000,000
equal to or more than HK\$12,000,000,000 but less than HK\$13,000,000,000	HK\$225,000,000
equal to or more than HK\$13,000,000,000	HK\$250,000,000

<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	HK\$2,000,000

two hours	
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\$15,000,000

**(E) Affordability-Linked Arrangement**

The Company will introduce promotions in the form of “affordability discounts” to fares to ensure that, subject to certain conditions, the rate of increase to the average price of fares (taking into account affordability discounts) would not exceed the rate of increase of the MMHI year-on-year (assuming that the rate of increase of the MMHI is positive). 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.

The promotions set out in (A) and (B) are expected to be implemented with effect from 1 July 2013. The promotion set out in (C) is expected to be implemented not later than the end of the second quarter of 2014. The promotions set out in (D) and (E) will be implemented on the date on which fares are adjusted in accordance with the FAM in relevant years, subject to certain conditions. For the period from mid-2013 to mid-2014, the Company expects to forego revenues of approximately HK\$219 million as a result of the implementation of these promotions, in addition to the foregone revenue from other ongoing fare concessions which the Company currently provides. The Company is obliged to consult with Government before modifying or terminating any of the promotions set out above.

The next five-yearly review of the FAM is expected to take place in 2017-2018, in accordance with the terms of the Operating Agreement.

**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 Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), Commissioner for Transport (Ingrid Yeung Ho Poi-yan) and Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)) have concluded that the amendment to the FAM and the introduction of the fare concessions and promotions are in the best interests of the Company as a whole and that the amendment to the FAM does not constitute a material change to the terms of the existing FAM formula. Accordingly, they approved the amendment to the FAM and the introduction 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 at which the amendment to the FAM and the introduction 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.
“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.
“Merger Date”	means 2 December 2007.
“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.
“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 of 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*  
MTR Corporation Limited

Hong Kong, 16 April 2013

As at the date of this announcement:

*Members of the Board:* Dr. Raymond Ch'ien Kuo-fung (*Chairman*)\*\*, Jay Herbert Walder (*Chief Executive Officer*), Vincent Cheng Hoi-chuen\*, Christine Fang Meng-sang\*, Edward Ho Sing-tin\*, Alasdair George Morrison\*, Ng Leung-sing\*, Abraham Shek Lai-him\*, T. Brian Stevenson\*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)\*\*, Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)\*\* and Commissioner for Transport (Ingrid Yeung Ho Poi-yan)\*\*

*Members of the Executive Directorate:* Jay Herbert Walder, Lincoln Leong Kwok-kuen, Morris Cheung Siu-wa, Chew Tai Chong, Jacob Kam Chak-pui, Gillian Elizabeth Meller, David Tang Chi-fai 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.*