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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 joint review of the Fare Adjustment Mechanism by the Company and Government in accordance with the Operating Agreement, scheduled to be undertaken in 2022/23, has been completed and a summary of the outcome of the 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. However, the Company and Government have agreed to amend the formula such that the productivity factor that is used in the FAM formula shall be calculated by reference to the Company’s post-tax property development profit in Hong Kong rather than by reference to the financial performance of the Company’s Hong Kong transport operations, as further set out in the section headed “AMENDMENT TO THE FARE ADJUSTMENT MECHANISM” below.
- (B) In addition, in relation to fare concessions and promotions, the Company will replace the “3% Rebate for Every Octopus Trip” with a “Service Performance Rebate” and introduce a revised “Affordability-Linked Arrangement”, will continue to implement the Monthly Passes and MTR City Saver, will increase the Two-Way MTR-GMB Interchange Discount per ride from HK\$0.3 to HK\$0.5, and will introduce a deferral of 0.2 percentage points of the 2023 rate of adjustment to 2024, as further set out in the section headed “FARE CONCESSIONS AND PROMOTIONS” below.
- (C) The Company and Government have also agreed to certain special applications of the “Affordability-Linked Arrangement” to the fare years 2023/24 and 2024/25 pursuant to which, out of the 2.85 percentage points to be recouped by the Company, the Company will (i) recoup 1.2 percentage points in fare year 2023/24 but will implement a one-off special 1.2 percentage points reduction in fare year 2023/24 to offset such recoupment; and (ii) defer the recoupment of the remaining 1.65 percentage points to fare year 2024/25, as further set out in the section headed “SPECIAL APPLICATIONS OF THE “AFFORDABILITY-LINKED ARRANGEMENT” IN 2023/24 AND 2024/25” below.

This announcement is made by the Company pursuant to Rule 13.09(2) of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Company announces that the joint review by the Company and Government of the Fare Adjustment Mechanism in accordance with the Operating Agreement, scheduled to be undertaken in 2022/23, has been completed and the outcome of the review is set out below.

AMENDMENT TO THE FARE ADJUSTMENT MECHANISM

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 in the Company's announcements dated 16 April 2013 (the "2013 FAM Announcement") and 21 March 2017 (the "2017 FAM Announcement"), the existing FAM formula, as amended pursuant to the review of the FAM in 2013 and 2017, works as follows:

"Overall weighted fare adjustment rate = $0.5 * \Delta \text{CCPI} + 0.5 * \Delta \text{wage index} - t$ "

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);

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

" $\Delta \text{wage index}$ " means the yearly percentage change in the Nominal Wage Index (Transportation Sector); and

" t " has the value:

- (a) zero up to the implementation of the FAM in 2012; and
- (b) thereafter, the greater of:
 - (1) $0.5 * \text{CAGR in Productivity in the Reference Period}$ 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 2016, is the financial years 2008 to 2012; (b) in respect of each of the calendar years 2017 to 2022, is the financial years 2012 to 2016; and (c) in respect of each of the calendar years 2023 to 2027, is the financial years 2016 to 2022. 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 disclosed in the 2017 FAM Announcement and for the calendar years 2017-2022 only: (i) 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, would be zero; (ii) the rate of any adjustment to the fares in calendar year 2017 pursuant to the FAM would be reduced by 0.6 of a percentage point followed by an overall 10% discount; and (iii) the rate of any adjustment to the fares in each of calendar years 2018 to 2022 pursuant to the FAM would be reduced by 0.6 of a percentage point.

Amendment to the productivity factor (t)

As a result of the joint review which has just been completed, the Company and Government have agreed to amend an element of the FAM such that, going forward and unless further amended, the value of “t” (the productivity factor) shall be calculated by reference to the Company’s post-tax property development profit in Hong Kong rather than by reference to the financial performance of the Company’s Hong Kong transport operations. Accordingly, the value of “t” (the productivity factor) shall be calculated in each calendar year by reference to the profit for the preceding calendar year attributable to the shareholders of the Company arising from property development in Hong Kong (or as maybe renamed to such other equivalent item from time to time and subject to adjustments due to changes in accounting standards and segmental reporting), as set out in the consolidated statement of profit or loss in the audited consolidated financial statements of the Company (“**Property Development Profit**”) for that preceding calendar year (or such number calculated on the same basis as the Property Development Profit was calculated for the preceding calendar year provided that, where there is discrepancy between the number so calculated and the audited figure which subsequently becomes available, Government and the Company shall discuss in good faith and agree on a method of handling the discrepancy), as follows:

Profit for preceding year attributable to shareholders of the Company arising from property development in Hong Kong (or such other equivalent item from time to time)	Value of “t” (of a percentage point)
Less than HK\$5,000,000,000	0.6
Equal to or greater than HK\$5,000,000,000 up to but less than HK\$10,000,000,000	0.7
Equal to or greater than HK\$10,000,000,000	0.8

Fare anomalies

The existing FAM limits the Company from adjusting any individual specified fares within the fare basket by a percentage greater than the FAM rate plus or minus 5 percentage points (inclusive). As a result of the joint review which has just been completed, the Company and Government have agreed to extend this permitted range to plus or minus 8 percentage points (inclusive) in limited circumstances where the Board reasonably believes such greater percentage adjustment is necessary to prevent the occurrence, or minimise the extent, of certain fare anomalies whereby some fares applicable to a journey on the same railway line may be higher for a shorter journey than for a longer journey.

All other aspects of the FAM as disclosed in the 2013 FAM Announcement and 2017 FAM Announcement remain unchanged (subject to the fare concessions and promotions and 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.

The Company will introduce, or continue to make available, a number of fare concessions, in the form of promotions. These comprise:

(A) Monthly Passes

The: (i) Tung Chung – Nam Cheong Monthly Pass Extra (to be renamed the “Monthly Pass”); 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.

(C) Service Performance Rebate

The “3% Rebate for Every Octopus Trip” scheme (the “**Previous Scheme**”) introduced by the Company in 2017 will be replaced by a “Service Performance Rebate” scheme. The Company will introduce the “Service Performance Rebate” scheme whereby special fare day(s) (on which all Octopus fares and QR Code fares will be discounted by 50%) will be offered upon the balance of the scheme reaching or exceeding HK\$25,000,000.

Similar to the “Service Performance-Linked Arrangement” in the Previous Scheme, the balance of the scheme will be increased with each train service disruption of 31 minutes or more on the railway, according to its duration and whether it occurred in “Peak Hours” or “Off-Peak Hours”. Subject to certain conditions, the scheme balance will be increased in accordance with the table set out below:

Disruption Period	Amount per Train Service Disruption	
	Off-Peak Hours	Peak Hours
equal to or more than 31 minutes but less than or equal to one hour	HK\$1,000,000	HK\$1,200,000
more than one hour but less than or equal to two hours	HK\$2,000,000	HK\$2,400,000
more than two hours but less than or equal to three hours	HK\$3,000,000	HK\$3,600,000
more than three hours but less than or equal to four hours	HK\$8,000,000	HK\$9,600,000
each additional hour (or part thereof) exceeding four hours	HK\$4,000,000	HK\$4,800,000
	<u>provided that</u> the overall amount per any single train service disruption shall not exceed HK\$40,000,000.	

“Peak Hours” for the purposes of this scheme means the period during any day that is not a Saturday, Sunday or public holiday in Hong Kong between 0800 and 0900 and between 1800 and 1900, except that in the case of the Airport Express Line, there shall be no Peak Hours.

Upon completion of each special fare day, the scheme balance will be reduced by HK\$25,000,000 (regardless of the cost to the Company in lost revenue of implementing such special fare day) and, if the scheme balance remains at HK\$25,000,000 or above after the special fare day, the Company will offer further special fare days until the scheme balance falls below HK\$25,000,000.

(D) Affordability-Linked Arrangement

An affordability discount, which was introduced by the Company in 2013, will continue to be available in an updated form. The purpose of the “Affordability-Linked Arrangement” is to reflect the “affordability” of fares in the fare arrangements. The affordability discount ensures that, subject to certain conditions, where the FAM rate is positive, the rate of increase in the average price of fares for the corresponding period will either be nil (where the MMHI Rate is negative) or capped at the MMHI Rate (where the MMHI rate is positive). The shortfall between the rate of increase in the average price of fares and the FAM rate will be carried forward from year to year to be recouped, subject to certain conditions, in years in which the MMHI Rate is greater than the FAM rate and the FAM rate is positive (to the extent such affordability headroom allows).

(E) Two-way MTR-GMB Interchange Discount

The two-way MTR-GMB interchange discounts, which were introduced by the Company in 2017, will continue to be available save that, with effect from a date in the fourth quarter of 2023 (such date to be determined by the Company and agreed to by the Commissioner for Transport), the interchange discount per ride will be increased from HK\$0.3 to HK\$0.5. The two-way MTR-GMB interchange discounts allow passengers using an Octopus card to change from the railway to a GMB route (for which there is no existing MTR-GMB interchange discount arrangement in place) and receive a HK\$0.3 (to be increased to HK\$0.5) discount per such GMB ride, and vice versa.

(F) Deferral of 0.2 percentage points of the 2023 rate of adjustment to 2024

The Company will implement a promotional arrangement whereby 0.2 percentage points of the rate of adjustment to the fares in 2023 will be deferred to 2024.

The promotions set out in (A), (B) and (E) are expected to continue to be available with effect from a date on or before 1 July 2023. The promotion set out in (C) is expected to be implemented with effect from 1 April 2023. The promotion set out in (D) is expected to be implemented on the date on which the average rate of fares is adjusted in accordance with the FAM in the relevant 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 (F) is expected to be implemented in the 2023 calendar year and 2024 calendar year.

Each of the promotions set out above (other than the promotion set out in (F) which only applies in respect of Fare Years 2023-24 and 2024-25 and shall be terminated thereafter) will be terminated with effect from 1 July 2028 unless renewed by the Company prior to that date.

SPECIAL APPLICATIONS OF THE “AFFORDABILITY-LINKED ARRANGEMENT” IN 2023/24 AND 2024/25

Pursuant to the “Affordability-Linked Arrangement”, the Company adjusted fares by 0.3 percentage points and 2.55 percentage points less than the relevant FAM rate in fare years 2019/20 and 2020/21 respectively. Under an arrangement previously agreed between the Company and Government, such shortfalls were to be recouped over two fare years in 2021/22 and 2022/23. However, because the FAM rate in fare year 2021/22 was negative and the FAM rate in fare year 2022/23 was rolled over in accordance with the FAM, the Company has not yet recouped the total of 2.85 percentage points.

It is anticipated that the rate of increase in the MMHI for fare year 2023/24 will likely be greater than the relevant FAM rate for 2023/24 plus 2.85 percentage points and, therefore, the Company will be entitled to recoup 2.85 percentage points in the upcoming fare year. Notwithstanding this entitlement, after taking into account the unique economic challenges faced by Hong Kong as it recovers from the approximately three-year long COVID pandemic and in recognition of the impact therefrom on the Hong Kong public, the Company and Government have agreed that the recoupment of the 2.85 percentage points will be addressed as follows:

- (a) in the fare year 2023/24, the Company will recoup 1.2 percentage points. However, the Company will implement an arrangement whereby such recoupment will be offset by a one-off special reduction of 1.2 percentage points in the fare year 2023/24 only; and
- (b) in the fare year 2024/25, the Company will recoup the remaining 1.65 percentage points.

ILLUSTRATIVE FINANCIAL IMPLICATIONS

For illustrative purposes only, on the assumptions that: (i) the arrangements set out in the 2017 FAM Announcement were terminated with effect from 1 January 2022; (ii) the recoupment of the 2.85 percentage points (as referred to in the section headed “SPECIAL APPLICATIONS OF THE “AFFORDABILITY–LINKED ARRANGEMENT” IN 2023/24 AND 2024/25” above) took place with effect from 1 January 2022; and (iii) the amendment to the fare adjustment mechanism (as set out in the section headed “AMENDMENT TO THE FARE ADJUSTMENT MECHANISM” above) and fare concessions and promotions (as set out in the section headed “FARE CONCESSIONS AND PROMOTIONS” above) were implemented with effect from 1 January 2022, the amount of revenue that would have been foregone for the calendar year 2022 as a result of the implementation of the arrangements referred to in (iii) above, based on the historical financial performance and operating data in 2022, is estimated to be approximately HK\$0.5 billion. Such estimated foregone revenue represents approximately 1.0% of the total actual revenue of the Company and its subsidiaries in 2022.

For illustrative purposes only, based on the scenario set out in the preceding paragraph, if the arrangements set out in the section headed “SPECIAL APPLICATIONS OF THE “AFFORDABILITY–LINKED ARRANGEMENT” IN 2023/24 AND 2024/25” in respect of the recoupment of the 2.85 percentage points (namely: (i) one-off special reduction of 1.2 percentage points; and (ii) deferral of 1.65 percentage points to the following year) were implemented with effect from 1 January 2022, the additional amount of revenue that would have been foregone for the calendar year 2022 as a result of such implementation is estimated to be approximately HK\$0.3 billion, out of which approximately HK\$0.2 billion would be attributable to the deferral of 1.65 percentage points to the following year. Such estimated additional foregone revenue represents approximately 0.7% of the total actual revenue of the Company and its subsidiaries in 2022.

NEXT SCHEDULED REVIEW

In accordance with the provisions of the Operating Agreement, the next scheduled review of the FAM is expected to take place in 2027/28.

GENERAL

The Company has obtained advice from a financial adviser (Rothschild & Co Hong Kong Limited). In considering the above arrangements, the Company has applied its internal governance and review processes.

The amendment to the productivity factor in the FAM formula better reflects the Company’s integrated railway plus property business model while ensuring that the FAM, with its direct-drive formula, remains a predictable, objective and transparent solution to the question of fare adjustments.

The Directors (other than the Directors who were appointed by Government pursuant to section 8 of the MTR Ordinance or who hold a position in Government), having taken into account the Company’s internal governance and review processes, the advice from the abovementioned financial adviser and a range of relevant factors, have concluded that the above arrangements, and the introduction or continuation of the fare concessions and promotions and special applications, are in the 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 and special applications.

The Directors who 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 and special applications were discussed and approved by the Board and, hence, did not vote on the relevant Board resolutions.

Investors should exercise caution in their dealings in the securities of the Company. The price of the Company's shares may be subject to fluctuations.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

"2013 FAM Announcement"	has the meaning given to it under the section headed "AMENDMENT TO THE FARE ADJUSTMENT MECHANISM - Existing FAM formula" of this announcement;
"2017 FAM Announcement"	has the meaning given to it under the section headed "AMENDMENT TO THE FARE ADJUSTMENT MECHANISM - Existing FAM formula" of this announcement;
"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 Hong Kong;
"GMB"	means scheduled services of public light buses;
"Listing Rules"	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"MMHI Rate"	means the change in Median Monthly Household Income for the fourth quarter of the prior year compared with the fourth quarter of the calendar year before the most recent calendar year in which fares were adjusted by the Company;
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China;
"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 (Chapter 556 of the Laws of Hong Kong);
"Operating Agreement"	means the Operating Agreement dated 9 August 2007 made between the Company and the then Secretary for Transport and Housing for and on behalf of Government, as amended;
"Previous Scheme"	has the meaning given to it under the section headed "FARE CONCESSIONS AND PROMOTIONS - (C) Service Performance

Rebate” of this announcement;

“Property Development Profit”

has the meaning given to it under the section headed “AMENDMENT TO THE FARE ADJUSTMENT MECHANISM - Amendment to the productivity factor (t)” of this announcement; and

“Rail Merger”

means the merger of the operations of the Company and the Kowloon-Canton Railway Corporation, as contemplated in the Merger Circular.

By Order of the Board
Gillian Elizabeth Meller
Company Secretary

Hong Kong, 21 March 2023

As at the date of this announcement:

Members of the Board: Dr Rex Auyeung Pak-kuen (*Chairman*)**, Dr Jacob Kam Chak-pui (*Chief Executive Officer*), Andrew Clifford Winawer Brandler*, Dr Bunny Chan Chung-bun*, Walter Chan Kar-lok*, Dr Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Hui Siu-wai*, Sunny Lee Wai-kwong*, Dr Rose Lee Wai-mun*, Jimmy Ng Wing-ka*, Carlson Tong*, Adrian Wong Koon-man*, Johannes Zhou Yuan*, Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Logistics (Lam Sai-hung)**, Permanent Secretary for Development (Works) (Ricky Lau Chun-kit)** and Commissioner for Transport (Rosanna Law Shuk-pui)**

Members of the Executive Directorate: Dr Jacob Kam Chak-pui, Margaret Cheng Wai-ching, Linda Choy Siu-min, Carl Michael Devlin, Herbert Hui Leung-wah, Dr Tony Lee Kar-yun, Gillian Elizabeth Meller, David Tang Chi-fai, Sammy Wong Kwan-wai and Jeny Yeung Mei-chun

* *independent non-executive Directors*

** *non-executive Directors*

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