

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

MTR CORPORATION LIMITED

香港鐵路有限公司

(the “Company”)

(Incorporated in Hong Kong with limited liability)

(Stock code: 66)

SOUTH ISLAND LINE (EAST) PROJECT AGREEMENT

KWUN TONG LINE EXTENSION PROJECT AGREEMENT

On 17 May 2011, the Company entered into the following two agreements with the Secretary for Transport and Housing for and on behalf of Government:

- (1) Project Agreement for the Financing, Design, Construction and Operation of the South Island Line (East) (the “**SIL(E) Project Agreement**”); and
- (2) Project Agreement for the Financing, Design, Construction and Operation of the Kwun Tong Line Extension (the “**KTE Project Agreement**”).

Further details relating to the Project Agreements are set out below.

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

Investors should exercise caution in their dealings in the securities of the Company.

Background on SIL(E)

In June 2007, the Company submitted to Government a proposal for the South Island Line (East) – “Revised Project Proposal for the east section of the South Island Line”. In December 2007, the Chief Executive in Council approved the preliminary planning and design for SIL(E). The Company commenced preliminary design and public consultation for the SIL(E) in February and March 2008 respectively. Government invited the Company to proceed with the further planning of the SIL(E) and the proposed scheme in respect of the SIL(E) (the “**SIL(E) Scheme**”) was gazetted under the Railways Ordinance in July 2009.

The Company commenced detailed design of the SIL(E) in August 2009 and the amended SIL(E) Scheme was gazetted under the Railways Ordinance in June 2010. In November

2010, the Chief Executive in Council authorised the SIL(E).

Background on KTE

In December 2002, the Company submitted to Government a proposal to extend the Kwun Tong Line to Ho Man Tin and Whampoa with a view to replacing KCRC's proposed Whampoa Automated People Mover. In February 2004, the Company submitted a revised Kwun Tong Line Extension proposal to Government. The proposed scheme in respect of the Kwun Tong Line Extension (the "**KTE Scheme**") was gazetted under the Railways Ordinance in November 2009.

The Company commenced detailed design of the Kwun Tong Line Extension in December 2009 and the amended KTE Scheme was gazetted under the Railways Ordinance in June 2010. On 30 November 2010, the Chief Executive in Council authorised the Kwun Tong Line Extension.

The Project Agreements

On 17 May 2011, the Company entered into the Project Agreements with the Secretary for Transport and Housing for and on behalf of Government pursuant to which, inter alia the SIL(E) and the KTE (as the case may be) will be owned, operated and maintained in accordance with the MTR Ordinance, the Operating Agreement and the relevant Project Agreement by the Company for its own account for the Franchise Period.

The Company will bear and finance the SIL(E) and KTE Construction Costs.

The Company's Rail-and-Property Model

As disclosed in the Merger Circular, under the Operating Agreement, subject to the MTR Ordinance, it has been acknowledged that, when undertaking new projects and/or operating new railways, the Company will require an appropriate commercial rate of return.

As explained in the Merger Circular, property development is a significant part of the Company's business, providing an important source of income that has supplemented the return of railway projects as well as contributing to future rail patronage from the immediate catchment areas created by such property developments.

The Company's practice in property development has been to arrange for various third-party developers to carry out the actual development works according to the Company's tender documents. Typically, the developers are responsible for development costs (including all or part of the Government land premium, construction and enabling work costs, marketing and sales expenses, professional fees, finance charges and other expenses), and have to bear development risks. The Company derives benefit from property developments through the sharing of profits with developers in agreed proportions from the sale or lease of the properties after deducting the development costs, and/or through up-front payments from the developers.

Proposed property developments at the SIL(E) Proposed Development Site and the KTE

Proposed Development Site are intended to contribute to the financial return of each of the projects, respectively. Under the SIL(E) Project Agreement, the SIL(E) Proposed Development Site is described as being approximately 7.17 hectares whose proposed uses are residential, commercial, station, depot and public transport interchange. Under the KTE Project Agreement, the KTE Proposed Development Site is described as being approximately 2.61 hectares whose proposed uses are residential, station and public refuse collection point.

The amount of contribution from such property developments will depend on a number of factors including (1) the condition of the property market in the future, (2) the future cost of such property developments including Government land premium, construction costs, marketing and sales expenses, finance charges and other expenses, and (3) the actual gross floor area of the relevant developments. **There is no guarantee as to the amount of contribution from such property developments nor that any such contribution, in combination with profits from the rail and related operations of SIL(E) and KTE, will result in the SIL(E) and KTE earning a commercial rate of return.**

Furthermore, the Company's right to undertake such property developments is subject to the approval of the Chief Executive in Council and, where appropriate, the Town Planning Board and such development rights shall be granted by private treaty, subject to conditions, including:

- (A) that the developments shall be discussed between the parties upon submission by the Corporation of an application for a private treaty grant and shall be in such form as may be prescribed by Government and, where applicable, the Town Planning Board;
- (B) that in respect of each of the SIL(E) Proposed Development Site and the KTE Proposed Development Site, the Company shall pay land premium payments to Government which are to be assessed and determined in the future; and
- (C) any other terms and conditions as the Director of Lands may impose.

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

Investors should exercise caution in their dealings in the securities of the Company.

DEFINITIONS

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

"Franchise Period" has the meaning ascribed to that term in the MTR Ordinance.

"Government" means the government of Hong Kong.

"HK\$" means Hong Kong dollars, the currency of Hong Kong.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**KTE Capital Cost**” means the aggregate of the costs which are payable by the Company for feasibility studies, technical studies, land acquisition and related costs, design, engineering, procurement, construction, testing, commissioning and completion of the KTE Works and any KTE RRIW. The Company’s estimate of the KTE Capital Cost is approximately HK\$5,346 million (based on December 2009 prices).

“**KTE Proposed Development Site**” means the land and areas at, under, above and/or adjacent to and, where appropriate, including the railway premises now known as “Ho Man Tin Station, Hong Kong” or part thereof, zoned “Residential (Group A)” in the Approved Ho Man Tin Outline Zoning Plan No. S/K7/20 (as amended from time to time).

“**KTE RRIW**” means any item of work which is described as such under the KTE Project Agreement which include the re-provisioning, remedial and improvement works that constitute the replacement, modification or improvement of existing privately owned facilities or facilities owned by Government or public bodies required as a consequence of the construction of the KTE.

“**KTE Works**” means any item of work which is described as such under the KTE Project Agreement which is necessary for the construction of the KTE.

“**Kwun Tong Line Extension**” or “**KTE**” means the extension of the existing Kwun Tong Line from Yau Mai Tei to Whampoa with an intermediate station at Ho Man Tin.

“**Listing Rules**” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

“**Merger Circular**” means the circular issued by the Company dated 3 September 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 Secretary for Transport and Housing for and on behalf of Government and the Company, as contemplated in Section 4(2) of the MTR Ordinance.

“**Project Agreements**” means the KTE Project Agreement and the SIL(E) Project Agreement.

“**Railways Ordinance**” means the Railways Ordinance (Cap. 519 of the Laws of Hong Kong).

“**SIL(E) and KTE Construction Costs**” means the SIL(E) Capital Cost and the KTE Capital Cost.

“SIL(E) Capital Cost” means the aggregate of the costs which are payable by the Company for feasibility studies, technical studies, land acquisition and related costs, design, engineering, procurement, construction, testing, commissioning and completion of the SIL(E) Works and any SIL(E) RRIW. The Company’s estimate of the SIL(E) Capital Cost is approximately HK\$12,429 million (based on December 2009 prices).

“SIL(E) Proposed Development Site” means the land and areas at, under, above and/or adjacent to and including the railway premises now known as “Wong Chuk Hang Station and Depot Site, Island South, Hong Kong” as zoned “Comprehensive Development Area” in the draft Aberdeen and Ap Lei Chau Outline Zoning Plan No. S/H15/26 (as amended from time to time).

“SIL(E) RRIW” means any item of work which is described as such under the SIL(E) Project Agreement which include the reprovisioning, remedial and improvement works that constitute the replacement, modification or improvement of existing privately owned facilities or facilities owned by Government or public bodies required as a consequence of the construction of the SIL(E).

“SIL(E) Works” means any item of work which is described as such under the SIL(E) Project Agreement which is necessary for the construction of the SIL(E).

“South Island Line (East)” or **“SIL(E)”** means the proposed railway running from Admiralty station to South Horizons station, with three intermediate stations at Ocean Park, Wong Chuk Hang and Lei Tung.

By order of the Board
Leonard Bryan Turk
Company Secretary
MTR Corporation Limited

Hong Kong, 18 May 2011

Members of the Board: Dr. Raymond Ch'ien Kuo-fung (*Chairman*)**, Chow Chung-kong (*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 (Eva Cheng)*** and *Commissioner for Transport (Joseph Lai Yee-tak)***

Members of the Executive Directorate: Chow Chung-kong, William Chan Fu-keung, Chew Tai Chong, Thomas Ho Hang-kwong, Jacob Kam Chak-pui, Lincoln Leong Kwok-kuen and Leonard Bryan Turk

* *independent non-executive Directors*

** *non-executive Directors*

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

