

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)

**DISCLOSEABLE TRANSACTION
CONTINUING CONNECTED TRANSACTION**

On 24 November 2008, the Company entered into a preliminary entrustment agreement with the Secretary for Transport and Housing for and on behalf of Government, providing for the design of, and site investigation and procurement activities in relation to, the Shatin to Central Link (the “SCL”) (“**Preliminary Entrustment Agreement**”).

On 17 May 2011, the Company entered into an entrustment agreement with the Secretary for Transport and Housing for and on behalf of Government for advance works relating to the SCL (the “**Advance Works Entrustment Agreement**”).

The scheme in respect of the SCL was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 26 November 2010, with amendments and corrections gazetted on 15 July 2011 and 11 November 2011. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 27 March 2012 (the “**Authorisation**”).

On 29 May 2012, pursuant to the Authorisation, the Secretary for Transport and Housing for and on behalf of Government and the Company entered into an agreement for construction and commissioning of the SCL (the “**Entrustment Agreement**”).

In consideration of the Company executing or procuring the execution of the Entrustment Activities (other than the Miscellaneous Works (if any)) and carrying out

its other obligations under the Entrustment Agreement, the Preliminary Entrustment Agreement and the Advance Works Entrustment Agreement, Government shall pay to the Company the Project Management Cost on a quarterly basis and, in consideration of the Company executing or procuring the execution of the Miscellaneous Works (if any) and carrying out its other obligations under the Entrustment Agreement in relation to the Miscellaneous Works (if any), Government shall pay to the Company the Miscellaneous Works Fee. Government is also required to bear certain Third Party Costs, any Interface Works Costs and any Direct Costs.

Certain of the Railway Works involve modifications to or upgrades or expansions of a group of assets (including rolling stock, signalling, radio and main control systems), for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute approximately HK\$7.0 billion (in 2011 prices) in respect of the costs relating to such modifications, upgrades or expansions. This will predominately be covered by the reduction in future maintenance capital expenditure during the construction period of the SCL Project which the Company would have otherwise incurred.

Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the Entrustment Activities in accordance with all applicable laws, regulations, by-laws, the MTR Ordinance, the Operating Agreement and the Entrustment Agreement.

Government shall use reasonable endeavours to provide the Company with any information or assistance of a non-financial nature reasonably required by the Company, so as to enable the Company to meet its obligations under the Entrustment Agreement.

As Government is a substantial shareholder of the Company and therefore a “connected person” of the Company (as defined in Chapter 14A of the Listing Rules), the Entrustment Agreement is a continuing connected transaction for the Company under Rule 14A.13 and Rule 14A.14 of the Listing Rules. As disclosed in previous announcements by the Company, the Stock Exchange has granted the Waiver to the Company which exempts it from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company and Government, subject to conditions described below under the heading “GENERAL”. Had the Waiver not been granted, the Entrustment Agreement would have been subject to the announcement, reporting

and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Entrustment Agreement constitutes a transaction under Chapter 14 of the Listing Rules. As each of the revenue ratio, the assets ratio and the consideration ratio, as applied in respect of the Entrustment Agreement, is more than 5% but less than 25% and each of the other ratios is less than 5% (or does not apply), the Entrustment Agreement constitutes a discloseable transaction for the Company which is subject to the notification and announcement requirements under the Listing Rules.

This announcement is made in accordance with the conditions of the Waiver and Rules 14.34 and 14A.47 of the Listing Rules.

Details of the Entrustment Agreement will be disclosed in the next annual report of the Company in accordance with the terms of the Waiver and Rule 14A.46 of the Listing Rules.

THE ENTRUSTMENT AGREEMENT

The Entrustment Agreement relates to the SCL which is one of the railway projects recommended for implementation in Government's Railway Development Strategy 2000. The SCL comprises two parts; firstly it will extend the existing Ma On Shan Line from Tai Wai to the West Rail Line via East Kowloon and secondly it will extend the existing East Rail Line across the harbour to Wan Chai North and Admiralty. The Entrustment Agreement contains (inter alia) the terms described below:

Parties:

- (1) the Company; and
- (2) Secretary for Transport and Housing for and on behalf of Government.

The Company's obligations

Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the Entrustment Activities in accordance with all applicable laws, regulations, by-laws, the MTR Ordinance, the Operating Agreement and the Entrustment Agreement.

The Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being “**Miscellaneous Works**”). Miscellaneous Works (if any) are to be carried out by the Company in the same manner as if they had formed part of the Entrustment Activities.

The Company will provide to Government by the end of each calendar month, a progress report on the Entrustment Activities that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the SCL Project to Government or termination of the Entrustment Agreement, a final report on the Entrustment Activities.

The Company will let all contracts with Third Parties under its conditions of contract and act in accordance with certain of its management systems and procedures specified in the Entrustment Agreement.

The Company will, to the satisfaction of Government, carry out or procure the carrying out of the Entrustment Activities for the RRIW, the EPIW, the Property Development Enabling Works and the Miscellaneous Works (if any), in accordance with specifications and/or standards to be agreed or, in the absence of agreement, reasonably stipulated by Government or other relevant public bodies.

In reaching any commercial settlements with Third Parties which are not strictly in accordance with the terms of the relevant contract or which amend the terms of the relevant contract, the Company will seek to ensure that such settlements are in the best interests of the SCL Project, shall act in accordance with its relevant commercial settlement procedures and shall in a timely manner consult with the Project Supervision Committee in respect of any proposed commercial settlement before such settlement is considered by the Company’s internal project control group.

The Company shall be responsible for the care of all works constructed under the SCL Project from the commencement of construction until the date of handover of those works (if any) to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective

works identified prior to the handover of the works.

During the period of twelve years following the issue of a certificate of completion in respect of works carried out under any contract with any Third Party, the Company shall be responsible for the repair of any defects in such works that are identified following the expiry of any defects liability period under the relevant contract. In relation to certain Interface Works to be constructed by the Company, during the period of twelve years following the issue of a certificate of completion by the Company in respect of such Interface Works, the Company shall be responsible for the repair of any defects in such Interface Works.

Project Supervision Committee

The Project Supervision Committee shall hold monthly meetings to review progress under the Entrustment Agreement and to monitor procurement activities, post-tender award cost control and resolution of contractual claims, in each case, associated with the SCL Project, in accordance with its terms of reference.

Unless otherwise agreed between Government and the Company, the Company shall send a representative or representatives to attend all meetings of the Project Supervision Committee and such representatives shall provide such information, co-operation and assistance as, in each case, Government may reasonably require, and be entitled to receive any papers which are prepared for consideration at the meetings of the Project Supervision Committee.

Warranties

Under the Entrustment Agreement the Company warrants that:

- (A) in the case of those Entrustment Activities that relate to the provision of project management services, such Entrustment Activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
- (B) in the case of those Entrustment Activities that relate to the provision of design services, such Entrustment Activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and

- (C) in the case of those Entrustment Activities that relate to the carrying out of construction works, such Entrustment Activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor.

FINANCIAL UNDERTAKINGS

The Company and Government's obligations

In consideration of the Company executing or procuring the execution of the Entrustment Activities (other than the Miscellaneous Works (if any)) and carrying out its other obligations under the Entrustment Agreement, the Preliminary Entrustment Agreement and the Advance Works Entrustment Agreement, Government shall pay to the Company the Project Management Cost on a quarterly basis and, in consideration of the Company executing or procuring the execution of the Miscellaneous Works (if any) and carrying out its other obligations under the Entrustment Agreement in relation to the Miscellaneous Works (if any), Government shall pay to the Company the Miscellaneous Works Fee. Government is also required to bear certain Third Party Costs, certain Interface Works Costs and any Direct Costs.

Certain of the Railway Works involve modifications to or upgrades or expansions of a group of assets (including rolling stock, signalling, radio and main control systems), for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute approximately HK\$7.0 billion (in 2011 prices) in respect of the costs relating to such modifications, upgrades or expansions. This will predominately be covered by the reduction in future maintenance capital expenditure during the construction period of the SCL Project which the Company would have otherwise incurred.

Government shall bear all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the SCL Project.

The maximum aggregate amount payable by Government to the Company for the Entrustment Cost under the Entrustment Agreement is limited to HK\$3,000 million per annum and a total in aggregate of HK\$15,000 million. The maximum aggregate amount payable by the Company to the Government in relation to its contribution to the Railway Works under the Entrustment Agreement is limited to HK\$4,000 million

per annum and a total in aggregate of HK\$15,000 million.

Government shall use reasonable endeavours to provide the Company with assistance of a non-financial nature reasonably required by the Company, so as to enable the Company to meet its obligations under the Entrustment Agreement.

Term

The Entrustment Agreement commences on 29 May 2012 and remains in full force and effect until the completion of the Entrustment Activities unless terminated earlier in accordance with the terms of the Entrustment Agreement.

Modifications to SCL Project

Under the terms of the Entrustment Agreement, either of Government or the Company may propose material modifications in writing to the scope of the entrustment works, the scope of the Entrustment Activities and/or the SCL Project programme. If the relevant party wishes to proceed with the material modification proposed by it, the parties will endeavour to agree on the terms of such modification. Any increase in cost shall be borne by Government.

Mutual Co-operation

Each of Government and the Company shall use reasonable endeavours to co-operate with the other in relation to the preparation of any submission or other document to various authorities including the Legislative Council and relevant District Councils.

REASONS FOR THE TRANSACTION

The Company's principal activities include activities in relation to railway projects of the nature provided for in the Entrustment Agreement. Consequently, the Company believes that its entry into the Entrustment Agreement will reinforce the Company's position as a leading provider of such services in Hong Kong.

The Directors (including the independent non-executive Directors) believe that the terms of the Entrustment Agreement are on normal commercial terms, in the ordinary and usual course of business of the Company and fair and reasonable and in the interests of the shareholders of the Company as a whole.

GENERAL

As Government is a substantial shareholder of the Company and therefore a “connected person” of the Company (as defined in Chapter 14A of the Listing Rules), the Entrustment Agreement is a continuing connected transaction for the Company under Rule 14A.13 and Rule 14A.14 of the Listing Rules. As disclosed in previous announcements by the Company, the Stock Exchange has granted the Waiver to the Company which, subject to certain conditions, exempts it from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government. Under the Waiver, the Company is required to make an announcement in respect of the Entrustment Agreement in accordance with Rule 14A.47 of the Listing Rules and to disclose details of the Entrustment Agreement in its next annual report in accordance with Rule 14A.46 of the Listing Rules. The Waiver also requires the Company to make the Entrustment Agreement subject to the approval of the Board, with the Directors appointed by the Government under Section 8 of the MTR Ordinance and any Director who holds a position in the Government being required to abstain from voting. Accordingly, each of Professor Chan Ka-keung, Ceajer, the Secretary for Transport and Housing and the Commissioner for Transport had left the relevant Board meeting prior to discussion of the Entrustment Agreement and voting by the Board on the relevant Board resolutions.

The Entrustment Agreement constitutes a transaction under Chapter 14 of the Listing Rules. As each of the revenue ratio, the assets ratio and the consideration ratio, as applied in respect of the Entrustment Agreement, is more than 5% but less than 25% and each of the other ratios is less than 5% (or does not apply), the Entrustment Agreement constitutes a discloseable transaction for the Company which is subject to the notification and announcement requirements under the Listing Rules.

This announcement is made in accordance with the conditions of the Waiver and Rules 14.34 and 14A.47 of the Listing Rules. Details of the Entrustment Agreement will be disclosed in the next annual report of the Company in accordance with Rule 14A.46 of the Listing Rules and the terms of the Waiver. Had the Waiver not been granted, the Entrustment Agreement would have been subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the Entrustment Agreement is a continuing connected transaction, the terms of the

Waiver also require, amongst other things, the following:

- (a) the independent non-executive Directors shall review the transactions under the Entrustment Agreement every year and confirm in the Company's annual report that such transactions have been entered into:
 - (1) in the ordinary and usual course of the business of the Company;
 - (2) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and
 - (3) in accordance with the Entrustment Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (b) the auditors of the Company shall provide a confirmation letter to the Board each year (with a copy to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) in accordance with the terms of the Waiver;
- (c) the Company shall allow, and shall use its reasonable endeavours to procure that Government will allow, the auditors of the Company sufficient access to their records for the purposes of giving the confirmation in paragraph (b) above;
- (d) the Company shall state in its annual report whether its auditors have given the confirmation in paragraph (b) above; and
- (e) the Company shall notify the Stock Exchange promptly and publish an announcement if it knows or has reason to believe the independent non-executive Directors and/or the auditors of the Company will not be able to give the confirmations in paragraphs (a) and (b) above.

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the Company and its subsidiaries are:

- (a) the operation of a modern railway system with lines from Central to Tsuen Wan (**Tsuen Wan Line**), from Yau Ma Tei to Tiu Keng Leng (**Kwun Tong Line**), from Po Lam and LOHAS Park to North Point (**Tseung Kwan O Line**), from Chai Wan to Sheung Wan (**Island Line**), from Hong Kong to Tung Chung (**Tung Chung Line**), from Hong Kong to the Hong Kong International Airport and then AsiaWorld-Expo both at Chek Lap Kok (**Airport Express**), from Sunny Bay to Disneyland Resort (**Disneyland Resort Line**), from Hung Hom to the boundary at Lo Wu and Lok Ma Chau (**East Rail Line**), from Tai Wai to Wu Kai Sha (**Ma On Shan Line**), from Hung Hom to Tuen Mun (**West Rail Line**), the North-west Railway (commonly known as Light Rail) in the North-West New Territories of Tuen Mun, Tin Shui Wai and Yuen Long, an intercity railway system between Hong Kong and some major cities in the Mainland of China, and feeder bus services in support of West Rail Line, East Rail Line and Light Rail;
- (b) property development, either as owner or as an agent for KCRC, at locations along the related railway lines including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail, the West Rail Line, the Kwun Tong Line Extension and the South Island Line (East);
- (c) related commercial activities, including the letting of advertising and retail space, enabling telecommunication services on the railway system, asset management and leasing management of investment properties (including shopping malls and offices), and property management of office buildings and residential units;
- (d) the investment in a 50% equity share in the operation of the seven-year UK's London Overground Concession, consisting of five London railway lines;
- (e) the investment in the operation (including rolling stock maintenance which is undertaken by a 50:50 joint venture) of the eight-year Sweden's Stockholm Metro Concession, consisting of three lines, linking the Swedish capital's central areas with surrounding suburbs;
- (f) the investment in a 60% equity share in Metro Trains Melbourne of an eight-year concession for the operation and maintenance of the Melbourne train system, consisting of 15 lines, linking Melbourne's central business district with surrounding suburbs;

- (g) the design and construction of the West Island Line as an extension of the Island Line;
- (h) the design, construction, procurement of services and equipment, and all other matters associated with bringing the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link into service;
- (i) the design and construction of the Kwun Tong Line Extension and the South Island Line (East) as the system extensions of the railway network;
- (j) the planning and design of the SCL as a major railway project for which Government has confirmed policy support;
- (k) the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;
- (l) worldwide consultancy services and contracting opportunities covering all areas of expertise required in the project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;
- (m) investment in Octopus Holdings Limited, a subsidiary of the Company, which has business activities both in Hong Kong and overseas including the operation of a contactless smart card system by its subsidiary Octopus Cards Limited for the collection of payments for both transport and non-transport applications in Hong Kong;
- (n) equity investments and long term operations and maintenance contracts outside of Hong Kong;
- (o) property management, shopping mall investment and railway related property development business in the Mainland of China;
- (p) the investment in a 49% equity interest in a joint venture for the investment, construction and operation of Beijing Metro Line 4, under a 30 year concession agreement with the Beijing Municipal Government, and operations and maintenance of Beijing Metro Daxing Line, an extension of the Beijing Metro Line 4, under a 10 year operations and maintenance

concession agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government;

- (q) the investment in the design, construction and future operations of Phase 2 of Shenzhen Metro Line 4; together with the operations of Phase 1, a double-track urban railway running from Futian Checkpoint at the boundary between Hong Kong and Shenzhen, under a 30 year Build-Operate-Transfer concession agreement with the Shenzhen Municipal Government; and
- (r) the acquisition of the land use right of the land lot above the Shenzhen Metro Line 4 Depot by two wholly-owned subsidiaries of the Company in August 2011. The lot with a total gross floor area of approximately 206,167 square metres will be used for residential and commercial development.

DEFINITIONS

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

“Board” means the board of directors of the Company.

“Concession Approach” has the meaning ascribed to that term in the Operating Agreement.

“Direct Costs” means any and all charges, costs and amounts payable to any Government department, bureau, agency or body in relation to the Entrustment Activities, including without limitation, any internal charges, costs and amounts of Government, any Government department, bureau, agency or body.

“Directors” means members of the Board.

“Entrustment Activities” means all activities, including the procurement thereof, as detailed in the Entrustment Agreement which are related to, as the case may be, the Railway Works, the EPIW, the RRIW, the Property Development Enabling Works and the Interface Works and all activities, including the procurement thereof, as agreed between Government and the Company which are related to the Miscellaneous Works (if any), and which, in each case, are required for the planning, design, construction, testing and commissioning thereof in relation to the SCL Project.

“Entrustment Cost” means the total cost to Government of the Entrustment Activities

including, but not limited to:

- (a) the Third Party Costs less the aggregate of Funding Percentage Amount;
- (b) the portion of the Project Management Cost in relation to the Entrustment Activities;
- (c) the Interface Works Cost (subject to the terms of the Entrustment Agreement); and
- (d) the Miscellaneous Works Fee (if any).

“Essential Public Infrastructure Works” or **“EPIW”** means any item of work which is described as such in the Entrustment Agreement as the same may be updated from time to time and, for the avoidance of doubt, is not described as forming part of the Railway Works but is associated with the SCL.

“Funding Percentage Amount” means in respect of each relevant item of the Railway Works, the amount to be borne by the Company, as calculated in accordance with the Entrustment Agreement.

“Government” means the government of Hong Kong.

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

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

“Interface Works” means any item of work which is described as such under the Entrustment Agreement.

“Interface Works Cost” means the costs incurred by the Company in completing the Interface Works as described as such in accordance with the Entrustment Agreement.

“KCRC” means the Kowloon-Canton Railway Corporation.

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

“Miscellaneous Works Fee” means an amount the Company is entitled to be paid,

being an amount equal to the Relevant Fixed Percentage of Third Party Costs attributable to the Miscellaneous Works from time to time.

“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 Management Cost” means HK\$7,893 million, to be paid on a scheduled basis to the Company by Government in accordance with the Entrustment Agreement.

“Project Supervision Committee” means the committee established by Government for the purposes of carrying out the activities specified in the heading above entitled “Project Supervision Committee”.

“Property Development Enabling Works” means, as at the date of the Entrustment Agreement, the enabling works at To Kwa Wan Station and Wan Chai North work sites comprising enhancement of the foundation and structure of the station, installation of necessary piles along the tunnels and station to preserve the topside development potential of the sites concerned. Excluding, for the avoidance of doubt, property development enabling works at Ho Man Tin.

“Railway Works” means any item of work which is described as such in the Entrustment Agreement.

“Relevant Fixed Percentage” means, in respect of each item of work forming part of the Miscellaneous Works, a fixed percentage to be agreed between the Company and Government.

“Reprovisioning, Remedial and Improvement Works” or **“RRIW”** means, any item of work which is described as such in the Entrustment Agreement.

“SCL Project” shall be construed to include the works comprising the Railway Works, the RRIW, the EPIW, the Property Development Enabling Works, the Interface Works and the Miscellaneous Works (if any).

“Stock Exchange” means The Stock Exchange of Hong Kong Limited.

“**Third Party**” means any contractor, consultant, adviser or other third party employed or otherwise engaged by the Company in connection with the Entrustment Activities.

“**Third Party Costs**” means costs payable to Third Parties pursuant to Third Party Contracts entered into in relation to the Railway Works, the RRIW, the EPIW, the Property Development Enabling Works and the Miscellaneous Works (if any).

“**Waiver**” means the waiver granted by the Stock Exchange to the Company from the requirements under Chapter 14A of the Listing Rules whose terms were contained in announcements made by the Company on 13 January 2005 and 24 October 2005 (as amended from time to time and subject to certain conditions).

By order of the Board

Gillian Elizabeth Meller

Company Secretary

MTR Corporation Limited

Hong Kong, 29 May 2012

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 (Eva Cheng)** and Commissioner for Transport**

Members of the Executive Directorate: Jay Herbert Walder, William Chan Fu-keung, Chew Tai Chong, Jacob Kam Chak-pui, Lincoln Leong Kwok-kuen, 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 the case of any inconsistency, the English version shall prevail.