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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)

**HONG KONG SECTION OF THE
GUANGZHOU – SHENZHEN – HONG KONG EXPRESS RAIL LINK**

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The Company is pleased to announce that it has entered into the XRL Agreement with Government on 30 November 2015 relating to the further funding and completion of the Express Rail Link project.

On 30 June 2015, the Company announced that the estimated project cost of the Express Rail Link project has increased to HK\$85.30 billion and the estimated completion programme has been extended to the third quarter of 2018. Following that announcement, Government and its consultants have been reviewing and discussing with the Company these revised estimates and the parties are now in agreement that the estimated project cost be reduced to HK\$84.42 billion.

The Company and Government both remain aligned and committed to the successful delivery of the Express Rail Link project with a target to enable commercial operations on the Express Rail Link to commence in the third quarter of 2018, as previously announced.

The XRL Agreement contains an integrated package of arrangements which provide, that:

- (i) Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion);
- (ii) the Company will, if the project cost exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts);

- (iii) the Company will pay a special dividend of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share, in each tranche) amounting in total to a combined payment of approximately HK\$25.76 billion. Based on shareholdings in the Company as at 31 October 2015, approximately HK\$19.51 billion will be paid to the Financial Secretary Incorporated and approximately HK\$6.25 billion will be paid to the Company's other shareholders. The first tranche will be paid in cash after the XRL Agreement becomes effective (payment is estimated to be in the second half of 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is estimated to be in the second half of 2017), assuming the conditions applicable to the XRL Agreement are satisfied. There will be no scrip alternative. In due course, the board will determine the book closure dates, the record dates and the payment dates and the Company will announce such relevant dates;
- (iv) Government reserves the right to refer to arbitration the question of the Company's liability (if any) under the two Entrustment Agreements previously entered into between the Company and Government in relation to the Express Rail Link (in 2008 and 2010, respectively);
- (v) certain amendments will be made to the second of the Entrustment Agreements entered into between the Company and Government (in 2010) to reflect the arrangements contained in the XRL Agreement (including an increase in the project management fee payable to the Company to an aggregate of HK\$6.34 billion); and
- (vi) the arrangements under the XRL Agreement (including the payment of the proposed special dividend) are conditional on the approval of:
 - (a) the Company's independent shareholders; and
 - (b) the Legislative Council in respect of Government's additional funding obligations, being granted prior to 30 September 2016 (or such earlier date as is discussed in section 2(vi) below). Upon these conditions being satisfied, the Company will make further announcements.

The XRL Agreement is a notifiable transaction under Chapter 14 of the Listing Rules. Government is a controlling shareholder of the Company and, therefore, a connected person of the Company. The XRL Agreement is, therefore, a connected transaction and will, upon its completion, amend an existing continuing connected transaction (as described in paragraph (v) above). The XRL Agreement will be subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

A circular containing further details of the XRL Agreement and other important information is expected to be despatched to the Company's shareholders on or about 7 January 2016.

The proposed general meeting of the Company, at which the resolution to approve the XRL Agreement will be voted on, is expected to be held on or about 1 February 2016 and Government and its associates are required to abstain from voting at that meeting. In due course, the Company will publish the notice of the general meeting containing details of the general meeting.

The Express Rail Link project is very important to the Company and, as project manager, the Company has every interest in the successful delivery of the project. The Company believes that the XRL Agreement provides a viable and pragmatic solution to take forward and complete the Express Rail Link project. If the approval of the Company's independent shareholders and the Legislative Council are obtained in accordance with the XRL Agreement, there will be a clear roadmap for a completion of the project.

As completion of the XRL Agreement is subject to the obtaining of the approval of the Company's independent shareholders and the approval of the Legislative Council for Government's additional funding obligations within the agreed timeframe, the arrangements contained in the XRL Agreement, including the payment of the special dividend, may or may not be implemented. Shareholders and potential investors should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to any aspect of this announcement or as to the action they should take, should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

At the request of the Company, trading on the Stock Exchange in the Company's shares (stock code: 66) and the Company's debt securities (stock codes: 4541, 5958 and 6025) was halted from 9:00 a.m. on 30 November 2015 pending the release of this announcement. An application has been made by the Company for the resumption of trading with effect from 9:00 a.m. on 1 December 2015.

This announcement is made in accordance with Rule 13.09(2), Chapters 14 and 14A of the Listing Rules, the waiver granted by the Stock Exchange to the Company in relation to Chapter 14A of the Listing Rules and Part XIVA of the SFO.

1. INTRODUCTION AND BACKGROUND

Reference is made to the previous announcements of the Company regarding the Express Rail Link Project.

In April 2014, the Company announced that the construction period for the Express Rail Link Project needed to be extended, with the target opening of the line for passenger service revised to 2017 from 2015. In July 2014, the Company provided to Government a revised project cost estimate of HK\$71.52 billion, inclusive of future insurance and project management costs.

In June 2015, the Company completed its review of the project cost estimate and the revised timetable for the construction of the Express Rail Link and, on 30 June 2015, the Company:

- (i) reported to Government that the Company estimates:
 - (a) the Express Rail Link being completed in the third quarter of 2018 (including programme contingency of six months); and
 - (b) the total project cost to be HK\$85.30 billion (including contingency) (an increase from the previous estimate of HK\$71.52 billion);

- (ii) advised Government that these revised estimates are based on a number of assumptions including timely funding arrangements and require the cooperation of various parties and certain approvals from Government; and
- (iii) announced that it had reported the above to Government and that the Board had authorised the Chairman and the Chief Executive Officer of the Company to engage with Government with a view to enabling the Express Rail Link to commence operations in accordance with the Revised Programme.

On 30 June 2015, in addition to formally notifying Government that the estimated project cost would exceed the Project Control Total of HK\$65 billion (in accordance with EA2), the Company also notified Government that the date on which the Company estimates that the aggregate of the project cost paid or payable by Government would exceed the Project Control Total would be mid-2016. Under EA2, having received such notification from the Company, Government is required to take all reasonable steps to obtain all necessary approvals for the funding of the Cost Overrun or propose an alternative solution.

Since 30 June 2015, Government and its consultants have been reviewing and discussing with the Company the revised estimated project cost and construction programme and the parties are now in agreement that the estimated project cost be reduced to the Revised Cost Estimate of HK\$84.42 billion, on the basis of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, including:

- (i) a reduction of HK\$544 million resulting from confirmation that 5 out of 15 tracks which are not required in the initial period of operations will only be fitted-out at a later date and, therefore, the costs relating to such fit-out have been deducted;
- (ii) a net reduction of HK\$150 million, as a result of a reduction in the project cost contingency and adjustments to a small number of other items; and
- (iii) a reduction of HK\$186 million to the additional Project Management Cost (so that the total Project Management Cost payable to the Company under EA2 is now agreed at HK\$6.34 billion compared with the previous agreed Project Management Cost under EA2 of HK\$4.59 billion).

As at 31 October 2015, tunnel excavation was 99.7% complete, the West Kowloon Terminus was 62.5% complete and overall, 74.6% of the works had been completed. The Company has appointed Battersby Kingsfield Limited, independent experts, to review the Revised Cost Estimate of HK\$84.42 billion. The Company has also appointed Professor Dr. Kao, Tsung-Chun and Professor Dr. Bent Flyvbjerg (who were independent experts to the independent board committee which was established on 29 April 2014) to review the Revised Cost Estimate of HK\$84.42 billion. Based on its own review of the Revised Programme and the Revised Cost Estimate of HK\$84.42 billion and on the advice of the Independent Experts, the Company does not currently believe there is any need to revise further the Revised Programme or the Revised Cost Estimate of HK\$84.42 billion.

On 30 November 2015, Government and the Company entered into the XRL Agreement following negotiations between the Company and Government relating to the further

funding and completion of the Express Rail Link Project.

The Company and Government both remain aligned and committed to the successful delivery of Express Rail Link Project with a target to enable commercial operations on the Express Rail Link to commence in the third quarter of 2018.

2. THE XRL AGREEMENT

On 30 November 2015, Government and the Company entered into the XRL Agreement relating to the further funding and completion of the Express Rail Link Project. The XRL Agreement contains an integrated package of terms and provides that:

- (i) Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion);
- (ii) the Company will, if the project cost exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts, as more particularly described in section B of the Appendix); and
- (iii) the Company will pay a Special Dividend of HK\$4.40 in aggregate per Share in two equal tranches (of HK\$2.20 per Share, in each tranche) amounting in total to a combined payment of approximately HK\$25.76 billion. Based on shareholdings in the Company as at 31 October 2015, approximately HK\$19.51 billion will be paid to the FSI and approximately HK\$6.25 billion will be paid to the Company's other Shareholders. The first tranche will be paid in cash within a reasonable period after Completion (payment is estimated to be in the second half of 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is estimated to be in the second half of 2017), assuming the conditions applicable to the XRL Agreement are satisfied. There will be no scrip alternative. In due course, the Board will determine the Book Closure Dates, the Record Dates and the Dividend Payment Dates and the Company will announce such relevant dates;
- (iv) Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under EA1 and EA2 (including any question Government may have regarding the validity of the Liability Cap). Under EA2, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under EA2 and certain fees received by the Company under EA1. Accordingly, the Liability Cap is currently up to HK\$4.94 billion and will increase to up to HK\$6.69 billion when the Project Management Cost is increased in accordance with the XRL Agreement. If the Arbitrator determines that, but for the Liability Cap, the Company's liability under EA1 and EA2 for the Current Cost Overrun would exceed the Liability Cap, the Company shall:
 - (a) bear such amount as is awarded to Government up to the Liability Cap;
 - (b) seek the approval of its Independent Shareholders, at another general meeting of the Shareholders (at which Government and its Associates will

be required to abstain from voting), for the Company to bear the Excess Liability; and

- (c) if the approval of the Independent Shareholders referred to in (b) above is obtained, pay the Excess Liability to Government. If such approval is not obtained, the Company will not make such payment to Government;
- (v) certain amendments will be made to EA2 to reflect the arrangements contained in the XRL Agreement, including an increase in the Project Management Cost payable to the Company to an aggregate of HK\$6.34 billion; and
- (vi) the arrangements under the XRL Agreement (including the payment of the proposed Special Dividend) are conditional on:
 - (a) Independent Shareholder Approval at the EGM to be convened on or about 1 February 2016; and
 - (b) LegCo Approval in respect of Government's additional funding obligations,

being granted prior to 30 September 2016 (or earlier, if a termination of EA2 is commenced prior to that date) and will become effective if such conditions are satisfied.

Upon these conditions being satisfied, the Company will make further announcements.

If both of the above conditions are not satisfied prior to 30 September 2016 (or such earlier date as is discussed in section 2(vi) above), the XRL Agreement will lapse and the Special Dividend will not be paid.

As Completion is subject to the obtaining of Independent Shareholder Approval and LegCo Approval within the agreed timeframe, the arrangements contained in the XRL Agreement, including payment of the Special Dividend, may or may not be implemented.

Further details relating to the XRL Agreement are contained in the Appendix.

3. REASONS FOR AND BENEFITS OF THE XRL AGREEMENT

A. *Completion of the Express Rail Link Project*

The completion of the Express Rail Link Project is very important to the Company. The Company has been successfully involved in the construction and/or operation of railway projects in both Hong Kong and overseas. The Company entered into EA2 on the understanding that it would be invited by Government to operate the Express Rail Link under the concession approach, following the completion of the project. As project manager of the project, the Company has every interest in the successful delivery of the project in accordance with EA2.

The Express Rail Link is also important to Hong Kong, as it is expected to bring direct benefits in terms of time savings and enhanced ease of travel. It is also expected to enhance Hong Kong's status as a gateway to the Mainland of China, bringing benefits in terms of fostering trade, professional services and other economic activities for the benefit of Hong Kong. Connectivity is one of the vital factors for achieving growth and

development and failure to improve Hong Kong's infrastructural connectivity may reduce Hong Kong's long term competitiveness.

Under the XRL Agreement, it has been agreed that Government will bear and finance up to a further HK\$19.42 billion of the project cost (in addition to the originally estimated amount of HK\$65 billion) and, if the project cost exceeds HK\$84.42 billion, the Company will bear and finance such excess (if any) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts). Taking account of the views of the Independent Experts (as discussed in section 1 above), the Company does not currently believe there is any need to revise further the Revised Programme or the Revised Cost Estimate of HK\$84.42 billion.

The Company believes the XRL Agreement provides a viable and pragmatic solution to take forward and complete the Express Rail Link Project. If Independent Shareholder Approval and LegCo Approval are obtained in accordance with the XRL Agreement, there will be a clear roadmap for completion of the project.

After taking into account the reasons and benefits described above for entering into the XRL Agreement and the terms of the XRL Agreement and EA2 (as amended by the XRL Agreement) as a whole, the Directors considered the terms of the XRL Agreement and EA2 (as amended by the XRL Agreement) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

B. *Special Dividend*

Details relating to the proposed Special Dividend

The Special Dividend of HK\$4.40 in aggregate per Share:

- (i) represents approximately 4.2 times the total dividend of HK\$1.05 per Share paid by the Company for 2014;
- (ii) represents approximately 15.4% of book equity of HK\$167.36 billion (as at 30 June 2015);
- (iii) represents a total Special Dividend in aggregate of approximately HK\$25.76 billion¹; and
- (iv) is targeted to be paid as an interim dividend to all Shareholders in two tranches. It is estimated that the first tranche will be paid in cash in the second half of 2016 and the second tranche will be paid in cash in the second half of 2017, assuming the conditions applicable to the XRL Agreement are satisfied. There will be no scrip alternative.

The entitlements of Government and the other Shareholders to the Special Dividend are set out in the table below.

	Number of Shares Held ¹	Percentage shareholding	Special Dividend Entitlement ² (HK\$ billion)
Government (Financial Secretary Incorporated)	4,434,552,207	75.7%	19.51
Other Shareholders	1,420,372,029	24.3%	6.25
Total	5,854,924,236	100.0%	25.76

Notes:

1. Based on the number of Shares held as of 31 October 2015.
2. Being the total aggregate of the proposed two tranches of Special Dividend.

The Company's proposed financing plan for payment of the Special Dividend

The Company has sufficient distributable reserves to pay the total amount of the Special Dividend and, having considered its capital structure including gearing ratio, intends to finance the cash payment of the Special Dividend to all its Shareholders through additional borrowings. The Company is confident it will be able to borrow the required amount on attractive funding terms. The Special Dividend provides an opportunity to improve the Company's capital structure through the return of distributable reserves to Shareholders by payment of the Special Dividend which will be financed by debt. The Company expects no negative impact on its current credit ratings (AAA (Standard & Poor's) and Aa1 (Moody's)).

The Company intends to continue to:

- (i) maintain a strong balance sheet with adequate liquidity;
- (ii) preserve financial flexibility;
- (iii) pursue capital expenditure and long term growth plans in Hong Kong, the Mainland of China and overseas;
- (iv) uphold its high levels of service performance in railway operations, including through the continued investment in the existing Hong Kong rail network; and
- (v) preserve its positive long-standing relationship with Government.

Conditionality

The implementation of the Arrangements (including the payment of the Special Dividend) is conditional on Independent Shareholder Approval and LegCo Approval (as described in section 2(vi) above).

Upon these conditions being satisfied, the Company will make further announcements.

If both of the above conditions are not satisfied prior to 30 September 2016 (or such earlier date as is discussed in section 2(vi) above), the XRL Agreement will lapse and the Special Dividend will not be paid.

As Completion is subject to the obtaining of Independent Shareholder Approval and LegCo Approval within the agreed timeframe, the arrangements contained in the XRL Agreement, including payment of the Special Dividend, may or may not be implemented.

Future dividend policy

Notwithstanding the proposed Special Dividend, subject to, among other things, the financial performance and trading results of the Company and general Hong Kong and global economic conditions, the Board intends to continue the Company's progressive dividend policy.

4. EXPECTED FINANCIAL IMPACT OF THE PROPOSED ARRANGEMENTS

The proposed Arrangements will have the following impact on the Company:

A. Debt and leverage ratios

As a result of the payment of the Special Dividend financed by debt, there will be an increase in the Company's total debt and net debt (after netting-off cash balances) as well as an increase in the Company's gross debt-to-equity ratio and net debt-to-equity ratio.

The Company's net debt-to-equity ratio as of 30 June 2015 was 9.1%. For illustrative purposes only, if the payment of the Special Dividend of HK\$25.76 billion and the draw-down of the additional borrowing of an equivalent amount by the Company had both been effective as of 30 June 2015, the Company's net debt-to-equity ratio would have increased to 29%.

Overall, the Company believes its debt and leverage ratios will remain at manageable levels.

B. Shareholders' funds and return-on-equity

The payment of the Special Dividend of HK\$25.76 billion will reduce the Company's Shareholders' funds in an amount equal to the Special Dividend; hence, for illustrative purposes only, the Company's Shareholders' funds as at 30 June 2015 would have decreased from HK\$167.15 billion to HK\$141.39 billion if the Special Dividend had been effective on 30 June 2015.

The Company's return on average equity attributable to Shareholders arising from underlying businesses for the year ended 31 December 2014 was 7.3%. For illustrative purposes only, if the payment of the Special Dividend of HK\$25.76 billion and the draw-down of the additional borrowing of an equivalent amount by the Company both had been effective as of 31 December 2013 and the interest expense on additional borrowing had been calculated based on the Company's weighted average borrowing rate for the half year ended 30 June 2015, the Company's return on average equity attributable to Shareholders arising from underlying businesses for the year ended 31 December 2014 would have increased to 8.2%.

C. Further Cost Overrun (being the portion of the project cost beyond HK\$84.42 billion, if any)

Any Further Cost Overrun (which amount (if any) except for certain agreed excluded costs (as more particularly described in section B of the Appendix) would have to be borne by the Company under the XRL Agreement) would be charged to the Company's accounts. Likewise, any liability of the Company determined in accordance with any arbitration referred to in section 2(iv) above (if any) would also be charged to the Company's accounts. If the increased Project Management Cost is insufficient to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the Express Rail Link Project, an amount in respect of such insufficiency would also be charged to the Company's accounts.

5. LISTING RULES IMPLICATIONS

A. Interpretation

In this section the terms "Associate", "connected person", "connected transaction" and "continuing connected transaction" have the meaning ascribed to them in the Listing Rules.

B. Notifiable Transaction

The XRL Agreement is a notifiable transaction for the Company under Chapter 14 of the Listing Rules and, among other things, will be subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

C. Amendment of Continuing Connected Transaction

Government is a substantial shareholder of the Company (holding approximately 75.7% of the Shares through the FSI as at 31 October 2015). The XRL Agreement is a connected transaction and will, upon Completion, amend EA2 which was a continuing connected transaction for the Company.

As disclosed in previous announcements by the Company (including the Company's announcement dated 26 January 2010 regarding the execution of EA2), 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, among other things, the Company must make the XRL 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 the Secretary for Transport and Housing, the Commissioner for Transport, the Permanent Secretary for Development (Works) and Professor Chan Ka-keung, Ceajer (each of whom has a material interest in the XRL Agreement) did not attend the Board meeting at which the XRL Agreement was discussed and did not vote on the XRL Agreement.

This announcement is made in accordance with Rule 13.09(2) of the Listing Rules,

Chapter 14 of the Listing Rules, the conditions of the Waiver, Rule 14A.35 of the Listing Rules and Part XIVA of the SFO. Details of the XRL Agreement will be disclosed in the next annual report of the Company in accordance with Rule 14A.71 of the Listing Rules and the terms of the Waiver. Although the effect of the Waiver is that the XRL Agreement would not be subject to the independent shareholder approval requirement under Chapter 14A of the Listing Rules, nevertheless the XRL Agreement, being treated as a notifiable transaction under Chapter 14 of the Listing Rules, will be subject to the independent shareholder approval requirement under Chapter 14 of the Listing Rules.

The circular to be issued by the Company in connection with the EGM will contain, amongst other things, the views of the Board and the IBC, including whether or not the Arrangements are on “normal commercial terms” and in the “ordinary and usual course of the business” of the Company (in each case, as that term is defined in the Listing Rules).

D. *Independent Board Committee*

In accordance with Listing Rule 13.39(6)(a), the Company has established the Independent Board Committee (comprising only independent non-executive Directors) to advise the Independent Shareholders as to whether the terms of the XRL Agreement are fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole and to advise the Independent Shareholders on how to vote with respect to the EGM Resolution, taking into account the recommendations of the Independent Financial Adviser.

E. *Independent Financial Adviser*

In accordance with Listing Rule 13.39(6)(b), an Independent Financial Adviser will be appointed to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the XRL Agreement are fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole and to advise the Independent Shareholders on how to vote with respect to the EGM Resolution.

F. *EGM and Shareholders' Circular*

A circular containing, among other things: (i) further details of the XRL Agreement; (ii) financial and other information of the Company; (iii) unaudited pro forma financial information of the Company upon Completion; (iv) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (v) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (vi) a notice to the Shareholders convening an EGM for consideration of the EGM Resolution, is expected to be despatched on or about 7 January 2016, which is more than 15 Business Days after the publication of this announcement, as the Company requires more time to prepare the information to be included in the circular.

If a majority of the votes cast in respect of the EGM Resolution are in favour of the EGM Resolution, the EGM Resolution will be passed.

Any Shareholder (together with its Associates) with a material interest in the XRL

Agreement and the Arrangements is required to abstain from voting with respect to the EGM Resolution.

Accordingly, the FSI and Government are connected persons with a material interest in the XRL Agreement and the Arrangements, and are not Independent Shareholders and (together with their Associates) will be required to abstain from voting with respect to the EGM Resolution.

The EGM is expected to be held on or about 1 February 2016. In due course, the Company will publish the notice convening the EGM which will contain details of the EGM.

6. PRINCIPAL ACTIVITIES OF THE COMPANY

The Company and its subsidiaries are principally engaged in the following core businesses: railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland of China and a number of major overseas cities; project management in relation to railway and property development businesses; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; and investment in Octopus Holdings Limited.

7. GENERAL

As Completion is subject to the obtaining of Independent Shareholder Approval and LegCo Approval within the agreed timeframe, the arrangements contained in the XRL Agreement, including the payment of the Special Dividend, may or may not be implemented. Shareholders and potential investors should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to any aspect of this announcement or as to the action they should take, should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

8. RE-DESIGNATION OF DIRECTOR AND CHANGE IN COMPOSITION OF NOMINATIONS COMMITTEE

Reference is made to the announcement of the Company dated 7 July 2015 in which the Company announced that Professor Frederick Ma Si-hang will become the Chairman of the Company with effect from 1 January 2016. Elements of the Arrangements (including the despatch of the circular, the EGM and, if the XRL Agreement becomes unconditional, Completion) will occur after Professor Ma becomes Chairman of the Company. Accordingly, with effect from the issue of this announcement:

- (i) Professor Ma is re-designated as a non-executive Director of the Company (from an independent non-executive Director of the Company) and will cease to be a member and chairman of the Company's Nominations Committee; and
- (ii) Abraham Shek Lai-him (an independent non-executive Director) will become a

member and chairman of the Company's Nominations Committee.

9. RESUMPTION OF TRADING

At the request of the Company, trading in the Listed Securities on the Stock Exchange was halted from 9:00 a.m. on 30 November 2015 pending the release of this announcement. An application has been made by the Company for the resumption of trading in the Listed Securities on the Stock Exchange with effect from 9:00 a.m. on 1 December 2015.

10. INDICATIVE TIMETABLE

Execution of XRL Agreement	30 November 2015
Despatch of circular	On or about 7 January 2016
EGM	On or about 1 February 2016
Dividend Payment Date for first tranche of Special Dividend (subject to Completion)	Second half of 2016 (expected)
Dividend Payment Date for second tranche of Special Dividend (subject to Completion)	Second half of 2017 (expected)

The above dates and times are indicative only and may change.

The Company will make further announcements in due course regarding the specific dates for the EGM, Book Closure Dates, Record Dates and the Dividend Payment Dates.

11. DEFINITIONS

In this announcement, the following expressions have the meanings set out below:

“Arbitrator”	means the arbitral panel appointed, in accordance with EA2, for the purposes of the Cost Overrun Arbitration (if any);
“Arrangements”	means all the arrangements in aggregate contained in the XRL Agreement which, together, form an integrated package of terms;
“Associate”	has the meaning given to that term in the Listing Rules;
“Back Stop Date”	means the earlier of (i) the date of a notice to terminate EA2 that may be served by the Company on Government under EA2; and (ii) 30 September 2016;

“Board”	means the board of Directors of the Company;
“Book Closure Dates”	means the dates on which the Register will be closed for determining the entitlements of the Shareholders to the two tranches of the Special Dividend;
“Business Days”	means a day (excluding a Saturday or Sunday or public holiday) on which banks in Hong Kong are generally open for business;
“Companies Ordinance”	means the Companies Ordinance (Cap. 622 of the Laws of Hong Kong);
“Company”	means MTR Corporation Limited;
“Completion”	means the date on which the XRL Agreement and the Arrangements become fully unconditional and effective in accordance with the XRL Agreement following the satisfaction of the conditions set out in the XRL Agreement as contemplated in Section G of the Appendix;
“Cost Overrun”	means the aggregate of the Current Cost Overrun and Further Cost Overrun;
“Cost Overrun Arbitration”	means an arbitration (if any) commenced in accordance with EA2 to determine the Company’s liability (if any) for the Current Cost Overrun under EA1 and EA2;
“Current Cost Overrun”	means that portion of the Entrustment Cost (up to a maximum of HK\$84.42 billion) that exceeds the Project Control Total;
“Deed Poll”	means the deed poll executed by Government on 26 January 2010;
“Director”	means a member of the Board;
“Dividend Payment Dates”	means the dates on which the two tranches of the Special Dividend will be paid to Shareholders whose names are registered on the Register on the Record Dates;
“Dollars” or “HK\$”	denotes the lawful currency of Hong Kong;
“EA1”	means the preliminary entrustment agreement for the design of, and site investigation and procurement activities in relation to the Express Rail Link between Government and the Company dated 24 November 2008;
“EA2”	means the entrustment agreement for the construction and commissioning of the Express Rail Link between Government and the Company dated 26 January 2010;

“EGM”	means a general meeting of the Shareholders convened in accordance with the Listing Rules and the Companies Ordinance;
“EGM Resolution”	means the resolution(s) to be considered at the EGM and which will be set out in the notice of the EGM;
“Entrustment Activities”	has the meaning given to that term in EA2;
“Entrustment Cost”	means the total cost of the Entrustment Activities under EA2;
“Excess Liability”	means the amount of the Company's liability (if any), for the Current Cost Overrun, determined by the Arbitrator under the Cost Overrun Arbitration that exceeds the Liability Cap;
“Express Rail Link” and “XRL”	the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link;
“Express Rail Link Project”	means the project of constructing and commissioning the Express Rail Link;
“FSI”	means the Financial Secretary Incorporated (incorporated under the Financial Secretary Incorporation Ordinance (Cap.1015 of the Laws of Hong Kong));
“Further Cost Overrun”	means the amount of the Entrustment Cost (including Project Management Cost), if any, that exceeds HK\$84.42 billion;
“Government”	means the Government of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region;
“Independent Board Committee”	means the committee comprising independent non-executive directors established pursuant to the Listing Rules;
“Independent Experts”	means: <ul style="list-style-type: none"> (i) Battersby Kingsfield Limited; and (ii) Dr. Kao, Tsung-Chun and Professor Dr. Bent Flyvbjerg;
“Independent Financial Adviser”	means the independent financial adviser to be appointed pursuant to the Listing Rules;
“Independent Shareholders”	means Shareholders of the Company excluding the FSI and any Associates of the FSI and/or Government;
“Independent Shareholder”	means the approval of the XRL Agreement and the Arrangements given by the Independent Shareholders at an

Approval	EGM;
“LegCo”	means the Legislative Council of Hong Kong;
“LegCo Approval”	means the approval by LegCo (or the relevant committee(s) thereof) of the additional funding required for the Current Cost Overrun in order for Government to be able to perform its obligations under the XRL Agreement and the Arrangements;
“Liability Cap”	means the limit on the Company's liability contained in Clause 4.11 of EA2;
“Listed Securities”	means the Shares (stock code: 66) and the Company's debt securities which are listed on the Stock Exchange (stock codes: 4541, 5958 and 6025);
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Party”	means Government or the Company (and “Parties” means both of them);
“Project Control Total”	means HK\$65 billion;
“Project Management Cost”	means the amount payable by Government to the Company pursuant to EA2 (as amended by the XRL Agreement) and referred to therein as the “Project Management Cost” (as the same is increased in accordance with EA2, as contemplated in Section H of the Appendix);
“Record Dates”	means the dates to be fixed by the Board for determining the entitlements of the Shareholders to the two tranches of the Special Dividend;
“Register”	means the register of Shareholders kept by the Company in accordance with the Companies Ordinance;
“Revised Cost Estimate”	means the revised cost estimate of HK\$84.42 billion, which the Company has agreed with Government and which is described in the section of this announcement entitled “INTRODUCTION AND BACKGROUND”;
“Revised Programme”	means the revised programme for the completion of the Express Rail Link Project which the Company reported to Government on 30 June 2015 which is described in the section of this announcement entitled “INTRODUCTION AND BACKGROUND”;

“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Share”	means an issued share in the share capital of the Company;
“Shareholder”	means the holder of a Share;
“Special Dividend”	means a special dividend in the aggregate amount of HK\$4.40 per Share;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Third Party”	has the meaning given to that term in EA2;
“Third Party Contract”	has the meaning given to that term in EA2;
“Waiver”	means the waiver granted by the Stock Exchange to the Company from the requirements of Chapter 14A of the Listing Rules (subject to certain conditions) whose terms were contained in announcements made by the Company on 13 January 2005 and 24 October 2005; and
“XRL Agreement”	means the Deed of Agreement in relation to the Express Rail Link between Government and the Company dated 30 November 2015.

By Order of the Board
Gillian Elizabeth Meller
Company Secretary

Hong Kong, 30 November 2015

As at the date of this announcement:

Members of the board: Dr. Raymond Ch'ien Kuo-fung (*Chairman*)**, Lincoln Leong Kwok-kuen (*Chief Executive Officer*), Pamela Chan Wong Shui*, Dr. Dorothy Chan Yuen Tak-fai*, Vincent Cheng Hoi-chuen*, Dr. Eddy Fong Ching*, Edward Ho Sing-tin*, James Kwan Yuk-choi*, Lau Ping-cheung, Kaizer*, Lucia Li Li Ka-lai*, Professor Frederick Ma Si-hang**, 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, Morris Cheung Siu-wa, Jacob Kam Chak-pui, Stephen Law Cheuk-kin, Gillian Elizabeth Meller, David Tang Chi-fai, Linda So Ka-pik, Philco Wong Nai-keung and Jeny Yeung Mei-chun

- * *Independent non-executive Director*
- ** *Non-executive Director*
- *** *Non-executive Director – given their relationship with Government, these non-executive Directors abstained from taking part in the board meeting at which the issue of this announcement was approved*

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

Appendix

Summary of the XRL Agreement

A. *Financing of Current Cost Overrun*

Government shall bear and finance the Current Cost Overrun.

B. *Financing of Further Cost Overrun*

The Company shall bear and finance the Further Cost Overrun, if any. The Company shall have no obligation to bear and finance such portion of the Further Cost Overrun that:

- (i) results from any change in any ordinance or subsidiary legislation enacted or made after the execution of the XRL Agreement which affects directly the Express Rail Link Project and/or the Entrustment Activities; or
- (ii) (a) comprises any costs or expenses (including costs and/or expenses arising directly or indirectly from the suspension and/or any subsequent re-commencement of the relevant Third Party Contracts including, without limitation, any additional costs and expenses in respect of sub-contractors of any tier, suppliers and workers) arising as a direct or indirect result of the Company complying with a written notice from Government instructing the Company to commence suspending Third Party Contracts; or (b) results from the occurrence of a force majeure; or (c) results from the suspension or termination of the EA2 otherwise than as permitted in the paragraph immediately below.

During the period when the Company is bearing and financing the Further Cost Overrun, Government shall not suspend or terminate the Express Rail Link Project and/or EA2 except as a result of the Company breaching EA2 provided Government does so in accordance with EA2.

If the Company becomes aware that the Entrustment Cost will exceed HK\$84.42 billion, it shall use its best endeavours to procure the agreement of relevant Third Parties that:

- (a) such Third Parties will not seek to enforce their rights under the Deed Poll to receive payment from Government of amounts of the Entrustment Cost (if any) that form part of the Further Cost Overrun; and
- (b) such Third Parties will seek payment from the Company of any amount of the Entrustment Cost that forms part the Further Cost Overrun.

In the event that, notwithstanding B.(a) and (b) immediately above, Government is required to, and does, pay a Third Party for an amount of the Entrustment Cost that forms part of the Further Cost Overrun, the Company shall, as soon as reasonably practicable, indemnify Government for such amount paid by Government (excluding any

amount referred to in B.(i) or (ii) above) provided Government has paid such amount in accordance with the Deed Poll and EA2.

C. *The Special Dividend*

The Company shall pay the Special Dividend of HK\$4.40 in aggregate per Share as an interim dividend.

The Special Dividend shall be paid in two equal tranches:

- (i) the first tranche will be paid on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules (being a date which is within a reasonable period following Completion) to Shareholders whose names appear on the Register on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules; and
- (ii) the second tranche will be paid on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules (being approximately 12 months after payment of the first tranche of the Special Dividend referred to in C.(i) above) to Shareholders whose names appear on the Register on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules.

D. *EGM*

The Company shall convene an EGM with a view to obtaining the Independent Shareholder Approval.

E. *Cost Overrun Arbitration*

Government reserves the right to refer the question of the Company's liability (if any) under EA1 and EA2 for the Current Cost Overrun (including any question Government may have regarding the validity of the Liability Cap) to arbitration in accordance with the arbitration provisions in EA2, save that any such referral will take place after the commencement of commercial operations on the Express Rail Link and will not require a prior referral to the senior executives committee or to mediation (as contemplated in EA2).

F. *Liability Cap*

If the Arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under EA1 and EA2 for the Current Cost Overrun would exceed the Liability Cap, then the Company shall:

- (i) bear such amount as is awarded to Government up to the Liability Cap;
- (ii) seek the approval of its Independent Shareholders for the Company to bear the Excess Liability; and

- (iii) if the approval of the Independent Shareholders referred to in F. (ii) immediately above is obtained, pay the Excess Liability to Government.

G. Conditions

- (i) The Arrangements (including the payment of the Special Dividend) are conditional on:

- (a) Independent Shareholder Approval being granted; and
- (b) LegCo Approval being granted,

prior to the Back Stop Date and will become effective when such conditions are satisfied.

- (ii) In the event that:

- (a) an alternative solution (as referred to in EA2) which is satisfactory to Government and the Company is not implemented; and
- (b) Government determines that the suspension of one or more Third Party Contracts in accordance with their terms will have to commence in order that the Entrustment Cost does not exceed HK\$65 billion,

Government may instruct the Company by written notice to commence the suspension process referred to in G.(ii) immediately above and the Company will, as soon as reasonably practicable, comply with such instruction.

- (iii) In the event that, as a direct or indirect result of the Company complying with a written notice from Government referred to immediately above, any additional costs or expenses arise (including costs and/or expenses arising directly or indirectly from the suspension and/or any subsequent re-commencement of the relevant Third Party Contracts including, without limitation, any additional costs and expenses in respect of sub-contractors of any tier, suppliers and workers), Government shall bear and finance such costs and expenses (and the Company shall have no responsibility whatsoever to bear and finance any such costs and expenses).

- (iv) Unless the Company receives a written notice from Government, the Company shall not commence suspending any Third Party Contract, for the purpose of ensuring that the Entrustment Cost does not exceed HK\$65 billion (and shall continue to administer the Third Party Contracts in such circumstances).

- (v) The Company's liability to Government arising out of, or in connection with G. (ii) and (iv) above shall be subject to the Liability Cap.

H. Amendments to EA2

Certain amendments shall be made to EA2 to reflect the arrangements contained in the

XRL Agreement, including:

- (i) an increase in the Project Management Cost payable to the Company to HK\$6.34 billion; and
- (ii) the Revised Programme.

I. Integrated Package

The Arrangements constitute an integrated package of terms.

J. No Precedent

The XRL Agreement and the Arrangements are specifically tailored to address the particular circumstances of the Express Rail Link Project and shall not serve as a precedent or create any expectations for the manner in which any other project will be addressed.