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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)

WEST ISLAND LINE: EXECUTION OF PROJECT AGREEMENT

CONTINUING CONNECTED TRANSACTION

DISCLOSEABLE TRANSACTION

On 13 July 2009, the Company entered into a project agreement with the Secretary for Transport and Housing for and on behalf of Government, for the financing, design, construction and operation of the West Island Line.

The West Island Line is one of the railway projects recommended for implementation in the Government's Railway Development Strategy 2000. It will extend the Company's Island Line from Sheung Wan to Kennedy Town with intermediate stations at Sai Ying Pun and University.

Pursuant to the Project Agreement, the Company shall carry out, or procure the carrying out of, the design, construction, completion, testing and commissioning of the WIL Works and shall bring into operation the West Island Line in accordance with the MTR Ordinance, the Operating Agreement and the Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the Franchise Period.

In consideration of the Company constructing or procuring the construction of the WIL Works and the RRIW, Government shall pay to the Company the WIL Payment. The WIL Payment is a capital grant of HK\$12,252 million which constitutes funding support from Government for the Company to implement the West Island Line project. Payment of the WIL Payment to the Company was approved by the Finance Committee of the Legislative Council on 3 July 2009. Within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis, providing scheduled transport for the public, the Company shall pay to Government the Repayment Amount (if any) which is intended to ensure that the Company reimburses Government for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the WIL Works and RRIW.

Arrangements for the financing of the EPIW will be the subject of one or more further agreements to be entered into between the Company and Government (whereby the costs

shall be the responsibility of Government).

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 Project Agreement is a continuing connected transaction for the Company under 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 the Company from strict compliance with the requirements of Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to conditions described below under the heading "General". Had the Waiver not been granted, the Project Agreement would have been subject to independent shareholder approval and the announcement and reporting requirements under Chapter 14A of the Listing Rules.

As the Project Agreement constitutes the acquisition of an asset by the Company, the asset in question being contractual rights in relation to the design, construction, operation and maintenance of the West Island Line, the Project Agreement constitutes a transaction under Chapter 14 of the Listing Rules. As each of the assets and consideration ratio, as applied in respect of the Project Agreement, are more than 5% but less than 25% and each of the other ratios is less than 25% (or does not apply), the Project Agreement constitutes a discloseable transaction for the Company which is subject to the notification and announcement requirements under the Waiver and the Listing Rules.

This announcement is made in accordance with the conditions of the Waiver and Rules 14.35 and 14A.47 of the Listing Rules.

Details of the Project 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.

PROJECT AGREEMENT

The Project Agreement relates to the West Island Line which is one of the railway projects recommended for implementation in Government's Railway Development Strategy 2000. It will extend the Company's Island Line from Sheung Wan to Kennedy Town with intermediate stations at Sai Ying Pun and University. The Project 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 Project Agreement, the Company shall carry out, or procure the carrying out of, the design, construction, completion, testing and commissioning of the WIL Works and shall bring into operation, operate and maintain the West Island Line in accordance with the

MTR Ordinance, the Operating Agreement and the Project Agreement. The West Island Line will be owned, operated and maintained in accordance with the MTR Ordinance, the Operating Agreement and the Project Agreement by the Company for its own account for the Franchise Period.

The Company shall design, construct and complete the RRIW (or procure the same to be done), and all direct, indirect and incidental costs, expenses or losses reasonably incurred or suffered by the Company in relation to the RRIW shall be the responsibility of the Company.

The Company shall design, construct and complete the EPIW (or procure the same to be done) and under the Project Agreement, the Company and Government have agreed that the arrangements for the financing of the EPIW will be the subject of one or more separate agreements to be entered into between the Company and Government (whereby all direct and indirect costs, expenses and losses shall be the responsibility of Government).

In performance of its obligations under the Project Agreement, the Company shall comply with and satisfy all relevant statutory or other legal requirements applicable to the West Island Line project.

The Company will provide warranties and undertakings to Government in the same terms as warranties and undertakings that are given to the Company by third parties in all contracts and agreements for the RRIW to be carried out by the Company.

The Company shall prepare the Baseline Programme, shall review the Baseline Programme annually and incorporate any changes in the Scope of Works and any changes to programme timing to be made in accordance with the Project Agreement.

The Company shall use its best endeavours to complete the Scope of Works relating to the West Island Line in accordance with the programme timing set out in the Baseline Programme, so as to enable commercial operations to commence on the West Island Line by the Scheduled Operating Date.

Subject to the receipt by the Company of the WIL Payment, the Company shall bear: (i) land acquisition, clearance and related costs arising from the implementation of the West Island Line project, save for those costs arising as a result of any claim for compensation by third parties for the loss of redevelopment potential arising as result of the West Island Line project; and (ii) all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project.

The Company has carried out an environmental impact assessment relating to the construction and operation of the West Island Line (endorsed by the Director of Environmental Protection). The Company shall, at its own cost, carry out the measures specified in this environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

Financing arrangements

In consideration of the Company constructing or procuring the construction of the WIL Works and the RRIW, Government shall, not later than 21 days from the date upon which Government receives an invoice from the Company for the same, pay to the Company the WIL Payment. The WIL Payment is a capital grant of HK\$12,252 million which constitutes funding support from Government to the Company to implement the West Island Line project. The WIL Payment will be accounted for in the balance sheet of the Company. Accordingly the WIL Payment is the value of the "assets" which are the subject of the Project Agreement.

The WIL Payment was calculated on the basis of a set of project cost estimates and was approved by the Finance Committee of the Legislative Council on 3 July 2009. To ensure the proper use of public money and safeguard the Government's interests, a claw-back mechanism has been incorporated into the Project Agreement, such that any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency required, will be reimbursed to Government with interest. In the event that the capital grant were to be insufficient, the Company would be responsible for bearing any additional costs associated with the West Island Line. The construction of the West Island Line is scheduled to take place between the date of the Project Agreement and 2014. Under the Project Agreement the claw-back mechanism works as follows:

(a) Methodology for calculation of the Repayment Amount

Within 24 months of Completion, the Company shall pay to Government any excess of the Estimated Amounts over the Discounted Actual Amounts (the "**Repayment Amount**") together with interest.

(b) Option for staged repayment of the Repayment Amount

The Company is entitled, at any time or times, to prepay to Government part or all of the Repayment Amount with interest.

(c) Interest accruing period

The interest accruing period will be the period between the date that the WIL Payment is received by the Company and the date(s) of repayment of all or each part (as the case may be) of the Repayment Amount by the Company.

*(d) Interest rate on Repayment Amount (the "**Relevant Interest Rate**")*

The Relevant Interest Rate means, in respect of each calendar year (or part thereof) which forms part the relevant interest accruing period (as described in paragraph (c) above), the lower of:

- (i) nine per cent (9%) per annum; and
- (ii) the arithmetic average of the annual rates of return of the investment portfolio of the

Exchange Fund for the six (6) preceding years.

Government's obligations

In addition to its obligation to make the WIL Payment to the Company, Government shall, amongst other things, also:

- (a) use reasonable endeavours to make land available to the Company for the implementation of the West Island Line project;
- (b) to the extent that it is empowered or otherwise able to do so, having taken all reasonable steps, procure that all necessary licences, consents and other permissions and approvals required for, or in connection with, the design, construction and operation of the West Island Line project are given or granted as expeditiously as possible when required and in a manner consistent with facilitating Government's expectations with regard to the timetable for delivery of the West Island Line project provided that this obligation shall not fetter Government's powers, discretions and duties under the law to the extent it is acting in a governmental capacity or as a competent authority;
- (c) 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 Project Agreement;
- (d) grant to the Company title to all land held or obtained by Government which is required for the purposes of the operation of the West Island Line; and
- (e) in accordance with its declared policy, encourage use of the West Island Line and shall take all reasonable action related to such usage to ensure appropriate co-ordination between the various transport modes.

Mutual obligations

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, AND BENEFITS OF, THE TRANSACTION

The Company's principal activities include the planning and construction of future extensions to the railway system and other infrastructure projects, including the West Island Line, being one of the major projects for which Government has confirmed policy support. In addition, the MTR Ordinance provides that the Company is granted a franchise to operate the Mass Transit Railway, including any extension to it and to construct any extension to the Mass Transit Railway. The West Island Line, together with the other rail projects which the Company is planning and designing (and, in the case of the Kowloon Southern Link, which is

substantially completed), represent a significant network expansion, which the Company expects will add to its growth opportunities as well as enhancing rail services as the backbone of public transportation in Hong Kong.

The West Island Line is a natural extension of the Company's Island Line and the Company believes that its operation of the West Island Line 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 Project Agreement are 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 Project Agreement is a continuing connected transaction for the Company under 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 the Company from strict compliance with the requirements of 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 Project Agreement in accordance with Rule 14A.47 of the Listing Rules and to disclose details of the Project 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 Project 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 disclosed to the Board their interest in the Project Agreement and each abstained from voting on the relevant Board resolutions.

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 Project 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 to the Company, the Project Agreement would have been subject to independent shareholder approval and the announcement and reporting requirements under Chapter 14A of the Listing Rules.

As the Project Agreement is a continuing connected transaction, the terms of the Waiver also require amongst other things, that:

- (a) the independent non-executive Directors will review the transactions under the Project 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 not 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 Project 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 will provide a 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), confirming that the transactions under the Project Agreement:
- (1) have been approved by the Board; and
 - (2) have been entered into in accordance with the Project Agreement;
- (c) the Company will allow, and use its reasonable endeavours to procure that the counterparty to the transactions 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 will state in its annual report whether its auditors have given the confirmation in (b) above; and
- (e) the Company will 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 (a) and (b) above.

As the Project Agreement constitutes the acquisition of an asset by the Company, the asset in question being contractual rights in relation to the design, construction, operation and maintenance of the West Island Line, the Project Agreement constitutes a transaction under Chapter 14 of the Listing Rules. As each of the assets and consideration ratio, as applied in respect of the Project Agreement, are more than 5% but less than 25% and each of the other ratios are less than 25% (or are inapplicable), the Project Agreement constitutes a discloseable transaction of the Company which is subject to the notification and announcement requirements under the Waiver and the Listing Rules.

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 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 Line**), from Sunny Bay to Disneyland Resort (**Disneyland Resort Line**), from East Tsim Sha Tsui 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 Nam Cheong 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 a freight railway system along East Rail Line from the boundary at Lo Wu to Sheung Shui Abattoir and Hung Hom;
- (b) property development, either as owner or as an agent for KCRC, at locations relating to the railway system including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail and the West Rail Line;
 - (c) related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping centres, offices and residential units), and Octopus Card Building Access System services;
 - (d) the operation of the 7-year London Overground Concession, in which the Company has a 50% equity share, consisting of 107.2 route kilometres of commuter railway lines connecting London's suburbs into the London Underground network;
 - (e) the design and construction of a station at LOHAS Park (in Tseung Kwan O South) as an extension of the Tseung Kwan O Line;
 - (f) the project management for the Kowloon Southern Link as an extension of the West Rail Line;
 - (g) the planning and construction of future extensions to the railway system and other related infrastructure projects including the West Island Line, the South Island Line, the Kwun Tong Line Extension, the Shatin to Central Link and the Express Rail Link, as the major projects for which the Government has confirmed policy support;
 - (h) the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;
 - (i) worldwide consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and upgrading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;
 - (j) 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 smart card system by its subsidiary Octopus Cards Limited for the collection of

- payments for both transport and non-transport applications in Hong Kong;
- (k) equity investments and long term operation and maintenance contracts outside of Hong Kong;
 - (l) property management, shopping centre investment and railway related property development business in the Mainland of China; and
 - (m) the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for future operations under a 30 year concession agreement with the Beijing Municipal Government.

DEFINITIONS

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

“Actual Capex Amount” means the sum of items (i) and (ii) in the definition of Discounted Actual Amount.

“Baseline Programme” means the programme of the Scope of Works to be executed and the timing and sequence required to effect the completion of the West Island Line project as may be amended from time to time in accordance with the Project Agreement.

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

“Completion” means the date on which commercial operations commence on the West Island Line on a revenue earning basis, providing scheduled transport for the public.

“Director” means a member of the Board.

“Discounted Actual Amount” means the sum of: (i) actual contract award prices (net of all claims, supplemental agreement sums and certain variations); (ii) the actual increases in payments to contractors (determined in accordance with price escalation provisions in contracts with contractors); (iii) the actual land cost payments (being the amounts actually paid by the Company to third parties and/or Government for all compensation claims (excluding compensation in connection with loss of redevelopment potential arising from underground strata resumption), land acquisition and clearance costs and related costs, arising from the implementation of the West Island Line project); and (iv) an amount equal to approximately 13% of the Discounted Actual Capex Amount, in the case of items (i), (ii) and (iii), discounted at a rate of 9% per annum to the date on which the Company receives the WIL Payment.

"Discounted Actual Capex Amount" means the sum of items (i) and (ii) in the definition of Discounted Actual Amounts following the application of the discounting procedure specified in that definition.

"EPIW" means the essential public infrastructure works which include any item of work which is associated with or ancillary to the West Island Line for enabling the West Island Line to be commissioned for commercial operations or which has a significant interface with any item of the WIL Works (in each case, which will, following completion thereof, be handed over to and be owned, managed, maintained and controlled by Government). As at the date of the Project Agreement, the EPIW comprise:

- (a) provision of a public transport interchange at Kennedy Town Station;
- (b) provision of pedestrian links at Sands Street; and
- (c) provision of a footbridge linking University Station to the Centennial Campus of the University of Hong Kong.

"Estimated Amount" means the sum of the estimated contract award prices and increases in payments to contractors, land costs and contingency amount, being HK\$12,418 million (being a present value amount).

"Exchange Fund" means the exchange fund established and managed by the Hong Kong Monetary Authority pursuant to the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong).

"Franchise Period" means, subject to the provisions of the MTR Ordinance, an initial period of 50 years commencing from 2 December 2007 (which may be extended in accordance with the MTR Ordinance and the Operating Agreement).

"Government" means the government of Hong Kong.

"Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China.

"KCRC" means the Kowloon-Canton Railway Corporation.

"Lands Department" means the Lands Department of Government.

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

"Mass Transit Railway" has the meaning ascribed to that term in the MTR Ordinance.

"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 Agreement” means the project agreement entered into by the Company on 13 July 2009 with Secretary for Transport and Housing for and on behalf of Government, for the financing, design, construction and operation of the West Island Line.

“Repayment Amount” has the meaning ascribed to that term in the section above headed **“Financing Arrangements”**.

“RRIW” means the reprovisioning, remedial and improvement works which include the removal and 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 West Island Line.

“Scheduled Operating Date” means the date on which commercial operations are scheduled to commence on the West Island Line on a revenue earning basis, providing scheduled transport for the public, as set out in the Baseline Programme.

“Scope of Works” means the WIL Works, the RRIW and the EPIW.

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

“West Island Line” means the extension of the Island Line from Sheung Wan to Kennedy Town with intermediate stations at Sai Ying Pun and University.

“West Island Line project” means the works comprising WIL Works, RRIW and EPIW.

“WIL Payment” means HK\$12,252 million.

“WIL Works” means all railway works for approximately three kilometres of electrified railway including three new underground stations, namely Sai Ying Pun, University and Kennedy Town and various associated facilities and line sections.

“Waiver” means the waiver granted by the Stock Exchange to the Company from strict compliance with the requirements under 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.

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

Hong Kong, 13 July 2009

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*, 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 (Alan Wong Chi-kong)**

Members of the Executive Directorate: Chow Chung-kong, Russell John Black, William Chan Fu-keung, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Andrew McCusker 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.

