

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)

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 Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (the "XRL") (the "Preliminary Entrustment Agreement").

The scheme in respect of the XRL was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010 (together, the "Authorisation").

On 26 January 2010, pursuant to the Authorisation, the Secretary for Transport and Housing for and on behalf of Government and the Company entered into an agreement for the construction and commissioning of the XRL (the "Entrustment Agreement").

In consideration of the Company executing or procuring the execution of the Entrustment Activities and carrying out its other obligations under the Entrustment Agreement and the Preliminary Entrustment Agreement, Government shall pay to the Company the Project Management Cost 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 any costs payable to Third Parties and any Direct Costs.

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 assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of

the XRL are given or granted.

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 shareholder approval requirements under Chapter 14A of the Listing Rules.

This announcement is made in accordance with the conditions of the Waiver and Rule 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.

ENTRUSTMENT AGREEMENT

The Entrustment Agreement relates to the XRL which is one of the railway projects recommended for implementation in Government’s Railway Development Strategy 2000. The XRL will start at a new terminus at West Kowloon and will connect to the Mainland section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link at the boundary. 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 XRL 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, the WKCD Interface 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 XRL 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 Company's internal project control group.

The Company shall be responsible for the care of all works constructed under the XRL Project from the commencement of construction until the date of handover of those works 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 by the Company in respect of work carried out under any contract with any Third Party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract.

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 XRL 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 activities, 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

Government's obligations

In consideration of the Company executing or procuring the execution of the Entrustment Activities and carrying out its other obligations under the Entrustment Agreement and the Preliminary Entrustment Agreement, Government shall pay to the Company the Project Management Cost 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. The Miscellaneous Works Fee will be paid by Government in cash within thirty days of receipt of a relevant certificate issued from time to time by the Company in accordance with the terms of the Entrustment Agreement. Government is also required to bear any costs payable to Third Parties and any Direct Costs.

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 XRL Project.

Government shall use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents required in connection with the design, construction and operation of the XRL are given or granted as expeditiously as possible.

Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the XRL (pursuant to and on the terms of the Entrustment Agreement) on the understanding that the Company will be invited to undertake the

operation of the XRL under the Concession Approach.

Term

The Entrustment Agreement commences on 26 January 2010 and remains in full force and effect until the completion of the Entrustment Activities or until terminated earlier in accordance with the terms of the Entrustment Agreement. The Company expects that the substantial majority of the Entrustment Activities will be complete by the time of the projected handover of the completed XRL in mid-2015. However certain Entrustment Activities involve the provision of specified administrative services to Government (for example, in relation to support to Government in connection with third party land compensation claims), the Company expects to provide these services for a number of years following the completion of the XRL Project. Notwithstanding this, certain provisions will remain in force following completion of the Entrustment Activities, for example, provisions regarding confidentiality and dispute resolution.

Modifications to XRL Project

Under the terms of the Entrustment Agreement, either of Government or the Company may propose amendments in writing to the XRL Project programme, the scope of the Entrustment Activities and/or the scope of the XRL Project. 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 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 Leung Cheuk-man (Alternate Director to 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.

This announcement is made in accordance with the conditions of the Waiver and Rule 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 announcement, reporting and independent shareholder 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 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 Entrustment Agreement:
 - (1) have been approved by the Board; and
 - (2) have been entered into in accordance with the Entrustment Agreement;

- (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 Line**), 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 a freight railway system along the 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 the West Island Line as an extension of the Island Line;
- (f) the planning and construction of future extensions to the railway system and other related infrastructure projects including the South Island Line, the Kwun Tong Line

Extension and the Shatin to Central Link;

- (g) the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;
- (h) worldwide consultancy services 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;
- (i) 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;
- (j) equity investments and long term operation and maintenance contracts outside of Hong Kong;
- (k) property management, shopping centre investment and railway related property development business in the Mainland of China;
- (l) the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for operations under a 30 year concession agreement with the Beijing Municipal Government;
- (m) the further design, construction, procurement of services and equipment, testing, commissioning and all other matters associated with the bringing into service of the XRL; and
- (n) investment in MTR Corporation (Shenzhen) Limited, a wholly-owned subsidiary of the Company, which is responsible for the construction of Phase 2 of Line 4 of the Shenzhen metro system and the operation of the whole of Line 4 of the Shenzhen Metro for a period of 30 years under a concession agreement with the Shenzhen Municipal Government.

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:

- (A) any and all charges, costs and amounts payable to any Government department, bureau, agency or body in relation to the Entrustment Activities; and
- (B) any and all amounts payable to KCRC as compensation for damage arising as a result of the Company and/or Third Party contractors carrying out Entrustment Activities on certain land held by KCRC.

"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/or the WKCD Interface Enabling 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 XRL Project.

"Essential Public Infrastructure Works" or **"EPIW"** means the essential public infrastructure works which include any item of work which is associated with or ancillary to the XRL for enabling the XRL to be commissioned for commercial operations or which has a significant interface with any item of the Railway Works and 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 XRL.

"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.

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

"Maximum Payment Limits" the maximum aggregate amount of Project Management Cost and Miscellaneous Works Fee that is payable by Government to the Company under the Entrustment Agreement annually and in total (being HK\$2,000 million and HK\$10,000 million, respectively and determined by the Company to be representative of the highest amount that the Company could realistically be expected to receive from Government under the Entrustment Agreement).

"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, subject to the Maximum Payment Limits.

"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\$4,590 million, to be paid in cash quarterly in advance on a scheduled basis to the Company by Government in consideration for the Company carrying out or procuring the carrying out of the Entrustment Activities (except for the Miscellaneous Works) and its other obligations under the Entrustment Agreement, as such sum may be varied in accordance with the Entrustment Agreement, subject to the Maximum Payment Limits.

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

"Property Development Enabling Works", as at the date of the Entrustment Agreement, comprise foundation, substructure, and transfer plate (if any) or the like and the necessary facilities to allow future property development above the XRL terminus in West Kowloon, in each case, as more particularly specified in the Entrustment Agreement.

"Railway Works" means any item of work which is described as such in the Entrustment Agreement and which is necessary for the construction and/or operation of the XRL.

"Relevant Fixed Percentage" means, in respect of each item of work forming part of the Miscellaneous Works, a fixed percentage agreed between the Company and Government, being a percentage that is the same as the percentage used to calculate the Project Management Cost in relation to the Entrustment Activities.

"Reprovisioning, Remedial and Improvement Works" or **"RRIW"**, as the date of the Entrustment Agreement, comprise 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 XRL, in each case, as more particularly specified in the Entrustment Agreement.

"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 any and all payments to Third Parties pursuant to the Entrustment Agreement.

“Waiver” means the waiver granted by the Stock Exchange to the Company from 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.

“WKCD Interface Enabling Works” comprise foundation, substructure, and transfer plate (if any) or the like and the necessary facilities to allow certain buildings to be constructed above the XRL terminus in West Kowloon where the terminus has extended into the West Kowloon Cultural District area.

“XRL Project” means together, the Railway Works, the EPIW, the RRIW, the Property Development Enabling Works, the WKCD Interface Enabling Works and the Miscellaneous Works (if any).

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

Hong Kong, 26 January 2010

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 (Joseph Lai Yee-tak)***

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.

