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MTR CORPORATION LIMITED

香港鐵路有限公司

(the 'Corporation')

(Incorporated in Hong Kong with limited liability)

(Stock Code: 66)

Inside Information

The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link")

This announcement is made pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

The Corporation has received a letter from Transport and Housing Bureau ("THB") of the Government of Hong Kong Special Administrative Region ("Government") dated 13 May 2014 ("Letter") in which THB stated:

"Finally, paragraph 83 of your paper states that "while it is considered unlikely that the project can be delivered within the original project budget of HK\$65 billion, the updated assessment may differ from HK\$68.4 billion. However, based on the information available and the analysis done to date, it is considered that the updated assessment will not differ significantly from this amount". As the Government advised the Corporation at the meeting on 14 April 2014 and on several occasions after that, the Corporation must strive to absorb all the costs pertaining to the project delay. It is very unlikely that the Government will be able to provide any additional funding for the project".

The Corporation's understanding to date of Government's position (and as set out in paragraph 65 of Government's submission to the Subcommittee on Matters Relating to Railways of the Legislative Council Panel on Transport (reference LC Paper CB(1)1328/13-14(03)) has been as a request to minimize the delay and contain any additional costs within the approved budget of the project. The Letter (and subsequent clarification the Corporation received from Government on 14 May 2014) refers to the Corporation having to "strive to absorb all the costs pertaining to the project delay" and states that "It is very unlikely that the Government will be able to provide any additional funding for the

project”.

The Entrustment Agreement for Construction and Commissioning of the Express Rail Link was entered into between Secretary for Transport and Housing for and on behalf of Government and the Corporation on 26 January 2010 (the “**Entrustment Agreement**”). Under the Entrustment Agreement, the Corporation will carry out the agreed activities for the planning, design, construction, testing and commissioning of the Express Rail Link project. The Entrustment Agreement further provides that Government will bear and finance the full amount of payments to contractors and consultants engaged in connection with the entrustment activities.

In addition, under the Entrustment Agreement, Government agrees to pay the Corporation’s project management fee of HK\$4,590 million, as such fee may be varied under the Entrustment Agreement (the “**Project Management Fee**”). In the event that a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase in the project management responsibilities or costs of the Corporation, the Corporation and Government are to negotiate in good faith to agree a variation in the Project Management Fee. At this stage, there is no certainty as to whether such sum will be increased and, if the Corporation does not receive an increase in the Project Management Fee, it may not be able to recover the increased internal costs it incurs in performing its obligations under the Entrustment Agreement.

Government has the right to claim against the Corporation if the Corporation breaches the Entrustment Agreement and to be indemnified by the Corporation in relation to losses incurred by Government as a result of the negligence of the Corporation in performing its obligations under the Entrustment Agreement or breach by the Corporation of the Entrustment Agreement. The Corporation’s liability (other than for death or injury) is subject to a cap equal to the fees the Corporation receives under the Entrustment Agreement and certain fees under the preliminary entrustment agreement entered into between Government and the Corporation on 24 November 2008. The Corporation’s position remains that it will perform its obligations under the Entrustment Agreement.

Given that Government’s view, as expressed in the Letter and referred to above, differs from the Corporation’s understanding of the terms of the Entrustment Agreement, further discussions between the Corporation and Government will ensue regarding their respective rights under the Entrustment Agreement. The outcome of the Corporation’s own review being undertaken by a committee of independent non-executive directors and the review being undertaken by the independent expert panel which Government has announced it will be appointing, will also be taken into account in such discussions between Government and the Corporation. The Corporation will make a further announcement(s) in due course.

By Order of the Board
Gillian Elizabeth Meller
Company Secretary

Hong Kong, 14 May 2014

As at the date of this announcement:

Members of the Board: Dr. Raymond Ch'ien Kuo-fung (*Chairman*)**, Jay Herbert Walder (*Chief Executive Officer*), Pamela Chan Wong Shui*, Dr. Dorothy Chan Yuen Tak-fai*, Vincent Cheng Hoi-chuen*, Christine Fang Meng-sang*, Edward Ho Sing-tin*, Professor Frederick Ma Si-hang*, Alasdair George Morrison*, Ng Leung-sing*, Abraham Shek Lai-him*, T. Brian Stevenson*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)***, Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)*** and Commissioner for Transport (Ingrid Yeung Ho Poi-yan)***

Members of the Executive Directorate: Jay Herbert Walder, Lincoln Leong Kwok-kuen, Morris Cheung Siu-wa, Chew Tai Chong, Jacob Kam Chak-pui, Stephen Law Cheuk-kin, Gillian Elizabeth Meller, David Tang Chi-fai 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.