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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)

### **INSIDE INFORMATION EXECUTION OF NEW TERRITORIES PROJECT AGREEMENTS FOR TUEN MUN SOUTH EXTENSION AND FOR KWU TUNG STATION**

On 5 September 2023, the Company entered into project agreements with the Secretary for Transport and Logistics for and on behalf of the Government for the financing, design, construction, completion, pre-operation, operation and maintenance of the Tuen Mun South Extension and the financing, design, construction, completion, pre-operation, operation and maintenance of the Kwu Tung Station. Further details are set out below.

**This announcement is made pursuant to Rule 13.09(2) of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).**

**Investors should exercise caution in their dealings in the securities of the Company.**

This announcement is made by the Company pursuant to Rule 13.09(2) of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

#### **BACKGROUND**

##### ***Kwu Tung Station***

In May 2020, the Company submitted to the Government a proposal for the Northern Link Project, including the Kwu Tung Station. On 8 December 2020, the Chief Executive in Council approved proceeding with the detailed planning and design of the Kwu Tung Station. The Company commenced the detailed planning and design of the Kwu Tung Station in December 2020. The railway scheme of the Kwu Tung Station was gazetted under the Railways Ordinance in April 2022. The railway scheme of the Kwu Tung Station was authorised under the Railways Ordinance on 4 November 2022.

The Company expects to commence construction around September 2023 for expected completion of the Kwu Tung Station in December 2027.

##### ***Tuen Mun South Extension***

In December 2016, the Company submitted to the Government a proposal for the TME Works and

RRIW which was subsequently supplemented with updates in July 2017. On 19 May 2020, the Chief Executive in Council approved proceeding with the detailed planning and design of the Tuen Mun South Extension. The Company commenced preliminary design of the Tuen Mun South Extension in October 2020. The railway scheme of the Tuen Mun South Extension was gazetted under the Railways Ordinance in January 2022. The railway scheme of the Tuen Mun South Extension was authorised under the Railways Ordinance on 22 June 2022.

The Company expects to commence construction around September 2023 for expected completion of the TME Stations and the associated railway facilities by the end of December 2030.

## **THE NEW TERRITORIES PROJECT AGREEMENTS**

On 5 September 2023, the Company and the Secretary for Transport and Logistics for and on behalf of the Government entered into:

- (1) the project agreement for the financing, design, construction, completion, pre-operation, operation and maintenance of the Kwu Tung Station, and related services and facilities, which will be owned, operated and maintained by the Company for its own account for the Franchise Period (the “**KTU Project Agreement**”); and
- (2) the project agreement for the financing, design, construction, completion, pre-operation, operation and maintenance of the Tuen Mun South Extension, and related services and facilities, which will be owned, operated and maintained by the Company for its own account for the Franchise Period (the “**TME Project Agreement**”),

(together, the “**New Territories Project Agreements**”).

The New Territories Project Agreements contain the following principal terms:

### ***Parties***

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

### ***The Company’s principal obligations***

The Company shall carry out, or procure the carrying out of, the New Territories Project Works and shall bring into operation, operate and maintain the KTU Works and the TME Works, respectively. The design, construction, completion, testing, commissioning, pre-operation, operation and maintenance of the KTU Works, NOL Advance Works (where applicable) and TME Works, respectively, shall be carried out in a manner which reflects the Company’s responsibilities and duties under the MTR Ordinance, the Operating Agreement and the relevant sections of the New Territories Project Agreements and in accordance with applicable laws and regulations.

In fulfilment of its obligations under the New Territories Project Agreements, the Company shall comply with and satisfy all relevant statutory or other legal requirements applicable to the New Territories Projects.

The Company shall carry out the New Territories Projects with the skill and care reasonably to be expected of a professional and competent railway project delivery entity and operator which is engaged in the delivery of new railway lines of the type and scope of the New Territories Projects.

The Company shall on its own pay for the full amount of the New Territories Project Cost and shall bear land acquisition costs arising from the implementation of the New Territories Projects as agreed in the New Territories Project Agreements. The Company expects to incur the New Territories Project Cost over 10 years or so and to fund such costs from the financial contribution from the proposed property developments described below and its internal resources.

The Company shall use its reasonable endeavours to complete: (1) the KTU Works so as to enable KTU Commercial Operations by the KTU Scheduled Operating Date; (2) the Detailed Planning and Design of the NOL Main Line and NOL Advance Works by the applicable NOL Scheduled Completion Dates; and (3) the TME Works and RRIW so as to enable TME Commercial Operations by the TME Scheduled Operating Date.

In the event that either or both: (1) KTU Commercial Operations commence on a date which is beyond the KTU Scheduled Operating Date; and (2) TME Commercial Operations commence on a date which is beyond the TME Scheduled Operating Date, the Company shall set aside certain amounts from the revenue generated from the Mass Transit Railway for funding network improvements in the Mass Transit Railway.

The Company shall, at its own cost, carry out the measures specified in the environment impact assessments and relevant environmental permits issued or to be issued by the Government.

The Company shall be subject to monitoring and control arrangements to be performed by the Government to oversee the delivery performance of the New Territories Projects, in accordance with the terms of the New Territories Project Agreements.

### ***The Government's principal obligations***

The Government shall, amongst other things:

- (i) use reasonable endeavours to provide the Company with any information or assistance of a non-financial nature reasonably required by the Company to meet its obligations under the New Territories Project Agreements;
- (ii) use reasonable endeavours to make land available to the Company for the timely implementation of the New Territories Project Works;
- (iii) grant to the Company title to all land held or obtained by the Government which is required for the purposes of the operation and maintenance of the Kwu Tung Station and the Tuen Mun South Extension;
- (iv) permit the Company to sublet or part with possession of, or carry out trades or activities, at the Kwu Tung Station and the TME Stations; and
- (v) permit the Company to undertake property development at the KTU Proposed Development Sites and the TME Proposed Development Site for the purpose of bridging the funding gaps of the New Territories Projects, as described in more detail below.

The New Territories Project Agreements state that it has been the Government's overall aim to develop an affordable, accessible, efficient and environmentally friendly public transport system providing diverse choices for the travelling public, and to continue to develop a passenger transportation system centred on public transport with railway as the backbone. The Government encourages the Company to take such reasonable steps to promote use of the Kwu Tung Station and the Tuen Mun South Extension as are compatible with the MTR Ordinance, the Operating Agreement and the New Territories Project Agreements.

### ***Mutual obligations***

Each of the 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.

The Government and the Company shall, in accordance with the respective New Territories Project Agreements, take forward collaborative work initiatives, including developing a charter for fostering a shared vision of the New Territories Projects and adopting collaborative working behaviours.

## **New Territories Projects in the context of the Company's rail-plus-property model**

### *Background*

As disclosed in the Merger Circular, in the Operating Agreement, subject to the MTR Ordinance, it has been acknowledged that, when undertaking new projects and/or operating new railways, the Company will require an appropriate commercial rate of return.

In the Operating Agreement, the Government acknowledges that property development has been, and is expected to continue to be, important for the commercial viability of new projects as well as for operational and technical reasons. The Operating Agreement also provides that, for any new project to be implemented by the Company, the Government and the Company will agree the detailed terms relating to what property development rights (if any) should be provided to the Company.

As explained in the Merger Circular, property development is a significant part of the Company's business, providing an important source of income that has supported the cost of construction of railway projects as well as contributing to future rail patronage from the immediate catchment areas created by such property developments.

The Company's practice in property development has been to arrange for various third-party developers to carry out the actual development works according to the Company's tender documents. Typically, the developers are responsible for development costs (including all or part of the Government land premium, construction and enabling work costs, marketing and sales expenses, professional fees, finance charges and other expenses) and have to bear development risks. The Company derives benefit from the property developments through the sharing of profits with developers in agreed proportions from the sale or lease of the properties after deducting the development costs and/or through lump sum payments from the developers.

### *New Territories Projects Proposed Development Sites*

The New Territories Projects Proposed Development Sites comprise:

- (1) the TME Proposed Development Site, which is approximately 6.11 hectares and whose proposed uses are residential, commercial, railway facilities and public transport interchange; and
- (2) the KTU Proposed Development Sites, which are approximately 4.74 hectares and whose proposed uses are residential, commercial, and railway facilities.

The New Territories Projects Proposed Development Sites have been identified and the Company shall be permitted to undertake property development thereat to contribute to the financial return of the New Territories Projects so that the Company can achieve an appropriate commercial rate of return on the New Territories Projects.

Subject to: (1) the approval of the Chief Executive in Council and, where applicable, the Town Planning Board; and (2) the successful resumption by the Government of all those portions of the KTU Proposed Development Sites which do not belong to the Government pursuant to the Lands Resumption Ordinance (Chapter 124 of the Laws of Hong Kong), the Company shall be permitted to undertake commercial and residential property development at each of the New Territories Projects Proposed Development Sites. Subject as aforesaid, such development rights to be undertaken by the Company shall be granted by private treaty, subject to conditions, including:

- (i) that the development shall be discussed between the parties and shall be in such form as may be prescribed by the Government and, where appropriate, the Town Planning Board;
- (ii) the Company shall pay land premium to the Government to be assessed as described below; and
- (iii) any other terms and conditions as the Government may impose.

### *Land Premium Arrangements for the New Territories Projects Proposed Development Sites*

The Operating Agreement was entered into in 2007 at the time of the rail merger between the Company and Kowloon-Canton Railway Corporation. It provided that, for property development rights in relation to a new project to be undertaken by the Company, land premium amounts payable by the Company would be assessed on a “full market value” basis ignoring the presence of the railway.

As disclosed in the Company’s announcement dated 23 September 2022, on that date the Company and the Secretary for Transport and Logistics for and on behalf of the Government entered into the project agreement for the financing, design, construction, pre-operation, operation and maintenance of the Oyster Bay Station. The land premium payable by the Company for the land exchange in connection with the Oyster Bay Station had been determined by the Government on a full market value basis (i.e. on a with-railway basis rather than ignoring the presence of the railway) with certain construction costs being accepted by the Government as deductible costs for the purposes of land premium assessment.

As disclosed in the Company’s announcement dated 28 February 2023, on that date the Company and the Secretary for Transport and Logistics for and on behalf of the Government entered into the project agreement for the financing, design, construction, completion, pre-operation, operation and maintenance of the Tung Chung Line Extension. The land premium payable by the Company in respect of the proposed development site in connection with the Tung Chung Line Extension is to be assessed on a full market value basis (i.e. on a with-railway basis rather than ignoring the presence of the railway) and is to be reduced by an agreed reduction amount, which was arrived at by reference to the expected funding gap arising from the Tung Chung Line Extension project.

Pursuant to the updated Operating Agreement, for property development rights in relation to a new project to be undertaken by the Company, the Government agrees that, for so long as its current land policy is maintained, land premium payable by the Company for such new project will be assessed on a “full market value” basis taking full account of the presence of the railway, subject to an amount being deducted either: (i) as deductible costs in order to arrive at the land premium; or (ii) after the assessment of the aforesaid land premium has been completed in order to arrive at the amount actually payable by the Company, having regard to the acknowledgements in the Operating Agreement that the Company will require an appropriate commercial rate of return when undertaking new projects and/or operating new railways, unless both parties agree to adopt another method to arrive at the land premium payable by the Company.

Consistent with the methodology referred to in (ii) of the paragraph immediately above, the total amount of land premium payable by the Company in respect of the entire KTU Proposed Development Sites and the TME Proposed Development Site shall, in each case, be assessed by the Government as the full market value of the site (taking into account the presence of the railway) less the KTU Reduction Amount or the TME Reduction Amount (as the case may be). The KTU Proposed Development Sites will be developed on a site-by-site basis and the land premium assessment for each site will be carried out, at the time of the relevant tender, on the basis described above, with a specified tranche of the KTU Reduction Amount being deducted. The TME Proposed Development Site will be developed in portions and the land premium assessment for each portion will be carried out, at the time of the relevant tender, on the basis described above, with a specified tranche of the TME Reduction Amount being deducted.

The KTU Reduction Amount is applicable to the KTU Proposed Development Sites only and the TME Reduction Amount is applicable to the TME Proposed Development Site only. Neither of the KTU Reduction Amount nor the TME Reduction Amount will be adjusted in the future notwithstanding any fluctuations in land values.

The amount of financial contribution from the development of the New Territories Projects Proposed Development Sites will depend on a number of factors including: (1) the condition of the property market in the future; (2) the future cost of such property developments, including Government land premium, construction costs, marketing and sales expenses, finance charges and other expenses; and (3) the actual gross floor area of the relevant developments. **There is no guarantee as to the amount of financial contribution from such property developments, nor that any such contributions, in combination with profits from the rail and related operations of the Kwu Tung Station and the**

**Tuen Mun South Extension will result in the Company achieving a commercial rate of return on the New Territories Projects.**

## **REASONS FOR, AND BENEFITS OF, THE NEW TERRITORIES PROJECT AGREEMENTS**

Consistent with, and to further develop, its principal business activities (as described below), the Company has entered into the New Territories Project Agreements which will enable the Company to expand its railway network through the implementation of the Kwu Tung Station and the Tuen Mun South Extension and to preserve the rail-plus-property model, on the basis described above, by carrying out property development with a view to supplementing the return on the New Territories Projects (as well as contributing to future rail patronage from the immediate catchment areas created by such property developments) in order to be able to achieve an appropriate commercial rate of return on the New Territories Projects considered on a combined basis.

In considering the New Territories Project Agreements, the Company has applied its internal governance and review processes and has obtained advice from a financial adviser (Rothschild & Co Hong Kong Limited), which concluded that, on a combined basis, the New Territories Projects are in the ordinary and usual course of business of the Company and that the New Territories Project Agreements are (i) on normal commercial terms; and (ii) fair and reasonable and in the interests of the Company and its shareholders (including its independent shareholders) as a whole.

## **PRINCIPAL ACTIVITIES OF THE COMPANY**

The Group is principally engaged in the following core businesses: railway design, construction, operation, maintenance and investment in Hong Kong, Macao, Mainland China and a number of overseas cities; project management in relation to railway and property development businesses in Hong Kong and Mainland China; 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 Mainland China; investment in Octopus Holdings Limited; provision of railway management, engineering and technology training; and investment in relevant new technologies.

## **GENERAL**

**Investors should exercise caution in their dealings in the securities of the Company. The price of the Company's shares may be subject to fluctuations.**

**The members of the Board who were appointed by the Government pursuant to section 8 of the MTR Ordinance or who hold a position in the Government were not present at the meeting of the Board when the New Territories Project Agreements were discussed and did not take part in the discussions of the Board when the New Territories Project Agreements were approved.**

## **DEFINITIONS**

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

<b>"Board"</b>	means the board of directors of the Company;
<b>"Design Cost of NOL Main Line and NOL Advance Cost"</b>	means the estimated amount of around HK\$3.9 billion (July 2023 prices) payable for the Detailed Planning and Design of the NOL Main Line and the NOL Advance Works, as agreed between the Government and the Company at the time of signing of the KTU Project Agreement, and having been taken into account in the calculation of the KTU Reduction Amount;
<b>"Detailed Planning and Design of the NOL Main"</b>	means all works which are described as such under the KTU Project Agreement which relate to the detailed planning and design of the

<b>Line</b>	NOL Main Line;
<b>“Franchise Period”</b>	has the meaning ascribed to that term in the MTR Ordinance;
<b>“Government”</b>	means the Government of Hong Kong;
<b>“HK\$”</b>	means Hong Kong dollars, the currency of Hong Kong;
<b>“Hong Kong”</b>	means the Hong Kong Special Administrative Region of the People’s Republic of China;
<b>“KTU Commercial Operations”</b>	means, in relation to the Kwu Tung Station, the operation of railway services at the Kwu Tung Station on a revenue earning basis by providing scheduled transport to the public;
<b>“KTU Cost”</b>	means all amounts payable for the KTU Works as agreed between the Government and the Company;
<b>“KTU Project Agreement”</b>	has the meaning ascribed to that term in the section of this announcement headed “THE NEW TERRITORIES PROJECT AGREEMENTS”;
<b>“KTU Proposed Development Sites”</b>	means collectively the land at: (i) Area 20 of Kwu Tung North New Development Area zoned “Residential (Group A)1”; (ii) Area 22 of Kwu Tung North New Development Area zoned “Residential (Group B)”; and (iii) Area 25 of Kwu Tung North New Development Area zoned “Residential (Group A)1” in the draft Kwu Tung North Outline Zoning Plan No. S/KTN/3 (as amended from time to time);
<b>“KTU Reduction Amount”</b>	means a total fixed amount of HK\$15,160.39 million, which is divided into specific tranches, for the KTU Proposed Development Sites;
<b>“KTU Scheduled Operating Date”</b>	means the date on which KTU Commercial Operations is scheduled to commence;
<b>“KTU Works”</b>	means all works which are described as such under the KTU Project Agreement which are necessary for the construction of the Kwu Tung Station;
<b>“Kwu Tung Station”</b>	means the new intermediate railway station proposed to be constructed at Kwu Tung on the existing Lok Ma Chau Spur Line (excluding any future extension thereto);
<b>“Listing Rules”</b>	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
<b>“Merger Circular”</b>	means the circular issued by the Company dated 3 September 2007;
<b>“MTR Ordinance”</b>	means the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong);
<b>“New Territories Project Agreements”</b>	has the meaning ascribed to that term in the section of this announcement headed “THE NEW TERRITORIES PROJECT AGREEMENTS”;
<b>“New Territories Project</b>	means the aggregate of (1) KTU Cost; (2) Design Cost of NOL Main Line and NOL Advance Cost; (3) TME Cost; and (4) RRIW Cost,

<b>Cost</b>	which is estimated to be, in aggregate, around HK\$25.6 billion (July 2023 prices);
<b>“New Territories Projects”</b>	means the projects to be implemented pursuant to the New Territories Project Agreements;
<b>“New Territories Projects Proposed Development Sites”</b>	has the meaning ascribed to that term in the section of this announcement headed “New Territories Projects in the context of the Company’s rail-plus-property model – New Territories Projects Proposed Development Sites”;
<b>“New Territories Project Works”</b>	means, collectively (1) the KTU Works; (2) the Detailed Planning and Design of the NOL Main Line; (3) the NOL Advance Works; (4) the TME Works; and (5) the RRIW;
<b>“NOL Advance Works”</b>	means all works which are described as such under the KTU Project Agreement which are to be constructed in advance in order to secure and expedite the construction of the NOL Main Line;
<b>“NOL Scheduled Completion Dates”</b>	means the dates on which the Detailed Planning and Design of the NOL Main Line and certain items of the NOL Advance Works are scheduled to be completed in December 2034 and in December 2027, respectively;
<b>“NOL Main Line”</b>	means the railway line between Kam Sheung Road Station and Kwu Tung Station, with three intermediate stations at San Tin, Ngau Tam Mei and Au Tau;
<b>“Operating Agreement”</b>	means the operating agreement dated 9 August 2007 made between the then Secretary for Transport and Housing (the office of which is now replaced by the Secretary for Transport and Logistics) for and on behalf of the Government and the Company, as contemplated in Section 4(2) of the MTR Ordinance and as amended from time to time;
<b>“Railways Ordinance”</b>	means the Railways Ordinance (Chapter 519 of the Laws of Hong Kong);
<b>“RRIW”</b>	means all works which are described as such under the TME Project Agreement which include the reprovisioning, remedial and improvement works that constitute the replacement, modification or improvement of existing privately owned facilities or facilities owned by the Government or public bodies necessary for and/or required as a consequence of the construction of the TME Works. Following completion of the RRIW, they shall be handed over to, owned, managed, maintained and controlled by such private owner, the Government or public bodies;
<b>“RRIW Cost”</b>	means all amounts payable for the RRIW;
<b>“TME” and “Tuen Mun South Extension”</b>	means (i) the extension of about 2.4-kilometre long of the existing Tuen Ma Line from Tuen Mun Station to Tuen Mun South near Tuen Mun Ferry Terminal in accordance with the scheme authorised under the Railways Ordinance; (ii) the new terminal station at Tuen Mun South; (iii) the new intermediate station in Tuen Mun Area 16; (iv) the feeder sub-station in Tuen Mun Area 16; (v) the modification of the existing Tuen Mun Station overrun, Pat Heung Depot and Kam Tin Building for the operation of TME; (vi) the viaducts and railway bridge



	across Tuen Mun River Channel and associated noise mitigation measures; and (vii) the new connection from the existing footbridge to Tuen Mun South Station;
<b>“TME Commercial Operations”</b>	means, in relation to the TME Stations, the operation of railway services at both TME Stations on a revenue earning basis by providing scheduled transport to the public;
<b>“TME Cost”</b>	means all amounts payable for the TME Works;
<b>“TME Project Agreement”</b>	has the meaning ascribed to that term in the section of this announcement headed “THE NEW TERRITORIES PROJECT AGREEMENTS”;
<b>“TME Proposed Development Site”</b>	means the land at Tuen Mun Area 16 zoned “Other Specified Uses” annotated “Commercial/ Residential Development with Public Transport Interchange” on the Approved Tuen Mun Outline Zoning Plan No. S/TM/37 (as amended from time to time);
<b>“TME Reduction Amount”</b>	means a total fixed amount of HK\$24,201.38 million, which is divided into specific tranches, for each portion of the TME Proposed Development Site;
<b>“TME Scheduled Operating Date”</b>	means the date on which TME Commercial Operations is scheduled to commence;
<b>“TME Stations”</b>	means the railway stations proposed to be constructed at Tuen Mun Area 16 and Tuen Mun South, namely A16 Station and Tuen Mun South Station respectively; and
<b>“TME Works”</b>	means all works which are described as such under the TME Project Agreement which are necessary for the construction of the TME.

By Order of the Board  
**Gillian Elizabeth Meller**  
*Company Secretary*

Hong Kong, 5 September 2023

As at the date of this announcement:

*Members of the Board:* Dr Rex Auyeung Pak-kuen (*Chairman*)\*\*, Dr Jacob Kam Chak-pui (*Chief Executive Officer*), Andrew Clifford Winawer Brandler\*, Dr Bunny Chan Chung-bun\*, Walter Chan Kar-lok\*, Dr Dorothy Chan Yuen Tak-fai\*, Cheng Yan-kee\*, Hui Siu-wai\*, Sunny Lee Wai-kwong\*, Rose Lee Wai-mun\*, Jimmy Ng Wing-ka\*, Carlson Tong\*, Sandy Wong Hang-yee\*, Adrian Wong Koon-man\*, Professor Anna Wong Wai-kwan\*, Christopher Hui Ching-yu (*Secretary for Financial Services and the Treasury*)\*\*, Secretary for Transport and Logistics (Lam Sai-hung)\*\*, Permanent Secretary for Development (Works) (Ricky Lau Chun-kit)\*\* and Commissioner for Transport (Angela Lee Chung-yan)\*\*

*Members of the Executive Directorate:* Dr Jacob Kam Chak-pui, Margaret Cheng Wai-ching, Linda Choy Siu-min, Carl Michael Devlin, Herbert Hui Leung-wah, Dr Tony Lee Kar-yun, Gillian Elizabeth Meller, David Tang Chi-fai, Sammy Wong Kwan-wai and Jeny Yeung Mei-chun

\* *independent non-executive Director*

\*\* *non-executive Director*

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