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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**

#### **PROFIT WARNING**

#### **SHATIN TO CENTRAL LINK PROJECT**

In relation to the Shatin to Central Link project, the Company announces that:

- (i) the Company has today completed and submitted to Government two separate final reports in respect of incidents relating to the Hung Hom Station extension, the Hung Hom North Approach Tunnel and South Approach Tunnel and the Hung Hom Stabling Sidings containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance;
- (ii) to enable the public to enjoy as much of the new service as practicable and at the earliest opportunity, Government has accepted the Company's recommendation that the Tuen Ma Line should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station targeted to occur in the first quarter of 2020;
- (iii) in order to progress the Shatin to Central Link project and to facilitate the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station in the first quarter of 2020, the Company will fund, on an interim and without prejudice basis, the costs arising from the Hung Hom incidents and certain costs associated with the phased opening of the Tuen Ma Line (referred to in paragraphs (i) and (ii) above), whilst reserving its position as to the ultimate liability for such costs. Currently, the Company's best estimate of such costs is around HK\$2 billion in aggregate. In light of this, the Company will make a provision of HK\$2 billion in its consolidated profit and loss account for the six months ended 30 June 2019. This amount does not take into account any potential recovery from any other party.

Together with the provision of approximately GBP43 million (being approximately HK\$430 million) in relation to First MTR South Western Trains Limited (a joint venture in which the Company holds a 30% shareholding) that was announced in the Company's voluntary announcement dated 30 May 2019, the total charge to the Company's consolidated profit and loss account in respect of these two matters for the six months ended 30 June 2019 amounts to HK\$2.43 billion. Such total charge is equivalent to approximately 52% and 22% of the consolidated profit arising from the underlying businesses of the Company and its subsidiaries for the six months ended 30 June 2018 and the year ended 31 December 2018 of HK\$4,648 million and HK\$11,263 million, respectively; and

- (iv) the Company and Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom incidents and their respective funding obligations relating to the cost to complete the Shatin to Central Link project and the costs arising from the Hung Hom incidents and certain costs associated with the phased opening of the Tuen Ma Line. If no overall settlement is reached between the Company and Government within a reasonable period, the provisions of the Entrustment Agreement between the Company and Government dated 29 May 2012 shall continue to apply (including in relation to such costs).

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 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. There is no assurance that the parties will ultimately reach an overall settlement in relation to the matters described above. The price of the Company's shares may be subject to fluctuations in the interim.**

**The Company will make further announcement(s) at the appropriate time(s).**

## **1. INTRODUCTION AND BACKGROUND**

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 under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

### ***SCL Agreements***

On 24 November 2008, Government and the Company entered into an entrustment agreement to provide for the design of, and site investigation and procurement activities in relation to, the SCL ("EA1"). Pursuant to EA1, the Company is responsible for carrying out or procuring the carrying out of the design, site investigation and procurement activities while Government is responsible for funding directly the total cost of such activities.

On 17 May 2011, Government and the Company entered into an entrustment agreement to provide for the financing, construction, procurement of services and equipment and certain

enabling works in relation to the SCL (“**EA2**”). Pursuant to EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while Government is responsible for bearing and paying to the Company all the work costs.

On 29 May 2012, Government and the Company entered into an entrustment agreement for the construction and commissioning of the SCL (“**EA3**”). Pursuant to EA3, the Company is responsible for executing or procuring the execution of the Entrustment Activities and Government is responsible for funding directly the total cost of the Entrustment Activities except for certain costs for which the Company is responsible in light of the associated reduction in future maintenance capital expenditure which the Company would have otherwise incurred under the existing service concession agreement with Kowloon-Canton Railway Corporation. Under EA3, the Company warranted to Government that, for those Entrustment Activities relating 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. The Company is responsible for carrying out or procuring the carrying out of the works specified in EA1, EA2 and EA3 for a total project management fee of HK\$7,893 million.

### ***Claims and Indemnification***

Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under EA3, the Company’s total aggregate liability to Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct.

To date, the Company has not received any claim by Government against the Company in relation to any SCL Agreement.

## **2. HUNG HOM INCIDENTS**

Towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension (“**First Hung Hom Incident**”). The Company took immediate steps to investigate the issues, report its findings to Government and reserve its position against relevant contractors. To address these allegations, the Company submitted to Government a holistic proposal for verification and assurance of the as-constructed condition and workmanship quality of the Hung Hom Station extension.

In late-2018 and early 2019, the Company advised Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings, forming an addition to the First Hung Hom Incident (“**Second Hung Hom Incident**”). To address the Second Hung Hom

Incident, the Company submitted to Government a verification proposal for verification of the as-constructed condition and workmanship quality of these areas.

The Company confirms that it has today completed and submitted to Government two separate final reports, one in respect of the First Hung Hom Incident and one in respect of the Second Hung Hom Incident, containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance.

On 10 July 2018, a Commission of Inquiry was set up by the Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong) to inquire into the Construction Works at and near the Hung Hom Station extension under the Shatin to Central Link (“**Col**”). The Company has co-operated fully with the Col. On 29 January 2019, Government made its closing submission to the first phase of the Col in which it stated its view that the Company ought to have provided the required skill and care reasonably expected of a professional and competent project manager, but that the Company had failed to do so. On 19 February 2019, Government announced that the terms of reference of the Col had been expanded and approved a further extension of time for the Col to submit its report to the Chief Executive to 30 August 2019, or such time as the Chief Executive in Council may allow. On 2 July 2019, the Chief Executive in Council approved, at the request of the Col, an extension of time for the Col to submit its final report to the Chief Executive by 29 November 2019.

On 25 February 2019, the Col submitted an interim report to the Chief Executive on matters covered by the original terms of reference. Government published the redacted interim report of the Col on 26 March 2019 in which the Col, while recognising it to be an interim report, found that although “the Hung Hom Station Extension diaphragm wall and platform slab construction works are safe”, they were not executed in accordance with the relevant contract in material respects. The Col also made a number of comments regarding the Company’s performance and systems as well as a number of recommendations for the future.

### **3. HUNG HOM INCIDENTS RELATED COSTS, FINANCIAL IMPACT ON THE COMPANY AND PROFIT WARNING**

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company will fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, whilst reserving its position as to the ultimate liability for such costs. Currently, the Company’s best estimate of such costs is around HK\$2 billion in aggregate. However, there is no certainty that, ultimately, the entirety of this amount will need to be funded.

If the Company and Government do not reach an overall settlement as envisaged in section 5 below within a reasonable period, the provisions of EA3 shall continue to apply, including in relation to the Hung Hom Incidents Related Costs, and the responsibility for the funding thereof shall be determined in accordance with EA3.

In light of the Company’s decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company will make a provision of HK\$2 billion in its consolidated profit and loss account for the six months ended 30 June 2019.

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and / or as a result of an award,

settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated profit and loss account in that financial period.

Together with the provision of approximately GBP43 million (being approximately HK\$430 million) in relation to First MTR South Western Trains Limited (a joint venture in which the Company holds a 30% shareholding) that was announced in the Company's voluntary announcement dated 30 May 2019, the total charge to the Company's consolidated profit and loss account in respect of these two matters for the six months ended 30 June 2019 amounts to HK\$2.43 billion. Such total charge is equivalent to approximately 52% and 22% of the consolidated profit arising from the underlying businesses of the Company and its subsidiaries for the six months ended 30 June 2018 and the year ended 31 December 2018 of HK\$4,648 million and HK\$11,263 million, respectively.

The eventual outcome of the discussions between the Company and Government, the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Cost to Complete and the Hung Hom Incidents Related Costs, and the level of recovery from relevant parties, remain highly uncertain at the current stage.

Although the Company has not received any claim from Government against the Company in relation to the SCL Project to date, it is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim. In any event, under EA3, the Company's total aggregate liability to Government (other than for death or personal injury) is subject to a cap equal to the fees the Company receives under the SCL Agreements (as further described in section 1 above).

While the funding, on an interim and without prejudice basis, by the Company of the Hung Hom Incidents Related Costs will reduce the Company's cash flows, the Board proposes to maintain the Company's current progressive ordinary dividend policy.

The Company is still in the process of finalising its unaudited results for the six months ended 30 June 2019, which are expected to be announced by the Company in August 2019.

#### **4. PHASED OPENING OF THE TUEN MA LINE IN THE FIRST QUARTER OF 2020**

To enable the public to enjoy as much of the new service as practicable and at the earliest opportunity, Government has accepted the Company's recommendation that the Tuen Ma Line should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station targeted to occur in the first quarter of 2020.

The Company will work with Government to agree on the details of the Phased Opening and will continue to take steps reasonably necessary to facilitate the Phased Opening, which will also require the assistance and co-operation of relevant Government departments.

#### **5. NEXT STEPS**

The Company and Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom Incidents and their respective funding obligations

relating to the Cost to Complete and the Hung Hom Incidents Related Costs. If no overall settlement is reached between the Company and Government within a reasonable period, the provisions of EA3 shall continue to apply (as they currently do) including in relation to such costs, and the responsibility for the funding of such costs shall be determined in accordance with EA3.

The Company may choose to exercise its right to bring claims against third parties in respect of the Hung Hom Incidents and the Hung Hom Incidents Related Costs.

The Company has been successfully involved in the construction and/or operation of railway projects in both Hong Kong and overseas. As project manager of the SCL Project, the Company has every interest in the successful delivery of the SCL Project, the completion of which is very important to the Company. Ultimately, resolution of the arrangements for the SCL Project is expected to preserve and enhance the Company's relationship with its various stakeholders, its reputation and its position for future growth.

The SCL Project is also important to Hong Kong, as the SCL is expected to bring direct benefits in terms of time savings and enhanced ease of travel. Connectivity is one of the vital factors for achieving growth and development and failure to improve Hong Kong's internal infrastructural connectivity may reduce Hong Kong's long term competitiveness. Therefore, the Company believes that it will be in the long term interests of the Company and Hong Kong for the Company to continue working with Government to complete the SCL Project.

## **6. GENERAL**

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

**There is no assurance that the parties will ultimately reach an overall settlement in relation to the Hung Hom Incidents and their respective funding liabilities relating to the Cost to Complete and the Hung Hom Incidents Related Costs. The price of the Company's shares may be subject to fluctuations in the interim.**

**The Company will make further announcement(s) at the appropriate time(s).**

**The directors of the Company who were appointed by Government pursuant to section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) or who hold a position in Government were not present at the meetings of the Board when the arrangements described in this announcement were discussed and did not take part in the discussions of the Board when such arrangements were approved.**

## **7. DEFINITIONS**

<b>"Board"</b>	means the board of directors of the Company;
<b>"Col"</b>	has the meaning given to that term in section 2 of this announcement ( <i>Hung Hom Incidents</i> );
<b>"Cost to Complete"</b>	means the cost to complete the Entrustment Activities,

	including the Project Management Cost;
<b>“EA1”</b>	has the meaning given to that term in section 1 of this announcement ( <i>Introduction and Background</i> );
<b>“EA2”</b>	has the meaning given to that term in section 1 of this announcement ( <i>Introduction and Background</i> );
<b>“EA3”</b>	has the meaning given to that term in section 1 of this announcement ( <i>Introduction and Background</i> );
<b>“Entrustment Activities”</b>	has the meaning given to that term in EA3;
<b>“First Hung Hom Incident”</b>	has the meaning given to that term in section 2 of this announcement ( <i>Hung Hom Incidents</i> );
<b>“Government”</b>	means the Government of the Hong Kong Special Administrative Region;
<b>“Hung Hom Incidents”</b>	means the First Hung Hom Incident and the Second Hung Hom Incident;
<b>“Hung Hom Incidents Related Costs”</b>	means certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening);
<b>“Phased Opening”</b>	means the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station;
<b>“Project Management Cost”</b>	means the amount paid or payable by Government to the Company pursuant to EA3 and referred to therein as the “Project Management Cost” (as the same is increased in accordance with EA3);
<b>“SCL”</b>	means the Shatin to Central Link;
<b>“SCL Agreement(s)”</b>	means any of EA1, EA2 and/or EA3;
<b>“SCL Project”</b>	means the project for the construction of the SCL;
<b>“Second Hung Hom Incident”</b>	has the meaning given to that term in section 2 of this announcement ( <i>Hung Hom Incidents</i> ); and
<b>“Stock Exchange”</b>	means The Stock Exchange of Hong Kong Limited.

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

Hong Kong, 18 July 2019

As at the date of this announcement:

*Members of the Board:* Rex Auyeung Pak-kuen (Chairman)\*\*, Dr Jacob Kam Chak-pui (Chief Executive Officer), Andrew Clifford Winawer Brandler\*, Walter Chan Kar-lok\*, Dr Pamela Chan Wong Shui\*, Dr Dorothy Chan Yuen Tak-fai\*, Cheng Yan-kee\*, Dr Anthony Chow Wing-kin\*, Dr Eddy Fong Ching\*, James Kwan Yuk-choi\*, Rose Lee Wai-mun\*, Lucia Li Li Ka-lai\*, Jimmy Ng Wing-ka\*, Benjamin Tang Kwok-bun\*, Dr Allan Wong Chi-yun\*, Johannes Zhou Yuan\*, James Henry Lau Jr (Secretary for Financial Services and the Treasury)\*\*, Secretary for Transport and Housing (Frank Chan Fan)\*\*, Permanent Secretary for Development (Works) (Lam Sai-hung)\*\* and Commissioner for Transport (Mable Chan)\*\*

*Members of the Executive Directorate:* Dr Jacob Kam Chak-pui, Roger Francis Bayliss, Margaret Cheng Wai-ching, Dr Peter Ronald Ewen, Herbert Hui Leung-wah, Adi Lau Tin-shing, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai 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.*