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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 AND CONTINUING CONNECTED TRANSACTIONS**

#### **EXECUTION OF AGREEMENTS RELATING TO THE EXPRESS RAIL LINK**

The Company is pleased to announce that it has entered into arrangements for the operation of the Express Rail Link. Commercial operations on the Express Rail Link are expected to commence in the second half of September 2018.

On 23 August 2018:

- (i) the Company and the Government of the Hong Kong Special Administrative Region entered into the Amendment Agreement to the Integrated Operating Agreement. This agreement amends and supplements the existing Integrated Operating Agreement, which regulates the operation of the existing railway network, so that the Express Rail Link is regulated in substantially the same manner as the existing railway network; and
- (ii) the Company and Kowloon-Canton Railway Corporation entered into the Supplemental Service Concession Agreement. This agreement is required by, and supplements, the existing Service Concession Agreement, which regulates the operation of the part of the existing railway network over which Kowloon-Canton Railway Corporation has granted to the Company a concession, so that the Express Rail Link is subject to substantially similar concession arrangements as that part of the existing railway network.

The two agreements referred to in paragraphs (i) and (ii) above form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) so that the Express Rail Link is properly regulated thereunder.

As Government is a substantial shareholder of the Company and the sole shareholder of Kowloon-Canton Railway Corporation (making Kowloon-Canton Railway Corporation an "associate" of Government for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited), the agreements and arrangements between the Company and Government and the Company and Kowloon-Canton Railway Corporation, described in this announcement, constitute continuing connected transactions for the Company.

As disclosed in previous announcements made by the Company, given the unique nature of the Company, its business and its ongoing dealings with Government and its associates (including Kowloon-Canton Railway Corporation), at the time of the Company's initial public offering and listing on The Stock Exchange of Hong Kong Limited (and as renewed thereafter) and again at the time of the merger of the rail operations of the Company and Kowloon-Canton Railway Corporation in 2007, The Stock Exchange of Hong Kong Limited granted waivers to the Company which, subject to certain conditions, exempt the Company from strict compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government and its associates (including Kowloon-Canton Railway Corporation). Had the waivers not been granted, the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited would have been applicable.

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).

## 1. **XRL Arrangements**

The Company is pleased to announce that it has entered into arrangements for the operation of the XRL. Commercial operations on the XRL are expected to commence in the second half of September 2018.

On 23 August 2018:

- (i) the Company and Government entered into the Amendment Operating Agreement. This agreement amends the Existing Integrated Operating Agreement, which regulates the operation of the existing railway network, so that the XRL is regulated in substantially the same manner as the existing railway network; and
- (ii) the Company and KCRC entered into the Supplemental Service Concession Agreement. This agreement is required by, and supplements, the Existing Service Concession Agreement, which regulates the operation of the part of the existing railway network over which KCRC has granted to the Company a concession, so that the XRL is subject to similar concession arrangements as that part of the existing railway network.

The two agreements referred to in paragraphs (i) and (ii) above form part of the legal and regulatory regime for the operation of railways in Hong Kong and are required for the purposes of the MTR Ordinance so that the XRL is properly regulated under the MTR Ordinance.

## 2. **Background**

### 2.1 The XRL

The 26-km high-speed cross-boundary XRL will connect Hong Kong to Shenzhen, Guangzhou and the high-speed rail network in the Mainland. West Kowloon

Station will form part of the XRL and is one of the largest underground high-speed rail stations in the world. The Company was entrusted by Government to manage the construction of the XRL.

A key milestone for the XRL was achieved when the main works for the XRL were substantially completed during the first quarter of 2018 and commercial operations on the XRL are expected to commence in the second half of September 2018.

In accordance with the “Three-step Process” to implement the necessary customs, immigration and quarantine arrangements, on 18 November 2017, Government and the People’s Government of Guangdong Province signed the Co-operation Arrangement for the work required to implement the future clearance procedures for the XRL. The Co-operation Arrangement was subsequently approved by the Standing Committee of the National People’s Congress on 27 December 2017. The passage of the Co-location Bill by the Legislative Council of Hong Kong on 14 June 2018 (and its signing by the Chief Executive of Hong Kong on 21 June 2018) marked the completion of the “Three-step Process” of the Co-location arrangement and the Co-location Ordinance was gazetted on 22 June 2018. The Co-location Ordinance will come into operation on a day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette. The co-location arrangements are designed to maximise service convenience for passengers and help realise the XRL’s full transport, social and economic benefits.

## 2.2 Reasons for, and benefits of, the XRL Arrangements

### 2.2.1 The Company believes that:

- (i) the completion of the XRL is very important to the Company. The Company has been successfully involved in the construction and/or operation of railway projects in Hong Kong, the Mainland and overseas;
- (ii) the Company entered into the Entrustment Agreement for the Construction and Commissioning of the XRL with Government on 26 January 2010 on the understanding that it would be invited by Government to operate the XRL under the concession approach, following the completion of the project;
- (iii) the XRL Arrangements are expected to preserve and enhance the Company’s relationship with its various stakeholders, its reputation and its platform for future growth in and outside of Hong Kong;
- (iv) from a financial perspective, the financial arrangements under the SSCA have been designed to:
  - (a) achieve a commercial return for the Company from the operation of the XRL;
  - (b) contribute, in aggregate, expected positive net cash flow and net profit to the Company, over the term of the SSCA;
  - (c) partially mitigate the key risks of:

- (1) patronage on the XRL not being at the level estimated by the Company; and
- (2) patronage on the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and existing intercity service, being negatively affected as a result of the operation of the XRL; and
- (v) the XRL is also important to Hong Kong, as it is expected to bring direct benefits in terms of time savings and enhanced ease of travel between Hong Kong and the Mainland. It is also expected to enhance Hong Kong's status as a gateway to the Mainland, bringing benefits in terms of fostering trade, professional services and other economic activities for the benefit of Hong Kong. Connectivity is one of the vital factors for achieving growth and development and failure to improve Hong Kong's infrastructural connectivity may reduce Hong Kong's long term competitiveness. The Company believes that the operation of the XRL will be in the long term interests of the Company and Hong Kong.

2.2.2 The Board (including independent non-executive Directors but excluding the Directors appointed by Government under section 8 of the MTR Ordinance or who hold a position in Government) believe that the terms of the XRL Arrangements are:

- (i) of a revenue nature and in the ordinary and usual course of business of the Company's group;
- (ii) on normal commercial terms; and
- (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Each of the Directors appointed by Government under section 8 of the MTR Ordinance, or who holds a position in Government, were not present at the relevant Board meeting at which the XRL Arrangements were approved by the Board and did not vote on the relevant Board resolutions (further details are contained in paragraph 6.2 below).

## 2.3 Rail Merger

On 2 December 2007, following the approval by the independent shareholders of the Company, the Rail Merger became effective. The terms of the Rail Merger were set out in various transaction agreements which were entered into on 9 August 2007, including:

- 2.3.1 the Existing Integrated Operating Agreement (see section 3 below); and
  - 2.3.2 the Existing Service Concession Agreement (see section 4 below),
- as more particularly described in the Rail Merger Circular.

### **3. Amendment Operating Agreement**

#### **3.1 Existing Integrated Operating Agreement**

The AOA amends and supplements the Existing Integrated Operating Agreement for the purpose of regulating the operation of the XRL.

On 9 August 2007, in connection with the Rail Merger, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the Existing Integrated Operating Agreement. The Existing Integrated Operating Agreement is prescribed under the MTR Ordinance and regulates the operation by the Company of railways in Hong Kong. It also includes terms relating to new railway projects such as the XRL.

In relation to new railway projects, the Existing Integrated Operating Agreement provides that, unless otherwise agreed by the Company and Government, for each new railway project that Government invites the Company to operate under the service concession approach, additional concession payments to KCRC are to be, inter alia:

3.1.1 determined on the basis of 90% of the discounted net cash flow from the operation of the new railway project (being discounted at a discount rate which reflects the Company's commercial rate of return in relation to the new railway), so as to enable the Company to make a commercial rate of return in relation to the operation of the new railway; and

3.1.2 structured in a similar way as the payment structure under the Existing Service Concession Agreement (being in the form of fixed annual payments and variable annual payments), where KCRC is the owner of the new railway project.

For further details of the terms of the Existing Integrated Operating Agreement, please refer to pages III-20 to III-33 of the Rail Merger Circular.

#### **3.2 Amendment Operating Agreement**

On 23 August 2018, the Company and the Secretary for Transport and Housing, for and on behalf of Government, entered into the AOA to amend and supplement the Existing Integrated Operating Agreement in order to prescribe the operational requirements that will apply to the XRL. The intent and effect of the AOA is that the operational requirements that are applicable to the existing railway network will apply in substantially the same manner to the XRL, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the XRL.

The AOA is an "operating agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the XRL is properly regulated under the MTR Ordinance.

#### **3.3 Principal Terms of the AOA**

The terms of the AOA are based substantially on the terms of the Existing Integrated Operating Agreement, as explained in paragraph 3.2 above. The AOA will take effect on the Commercial Operation Date (XRL) and will expire at the

same time as the SSCA. Certain principal terms of the AOA that are specific to the XRL include:

- 3.3.1 obligations on the Company to maintain specific performance requirements in relation to train service delivery, ticket machine reliability, ticket-gate reliability and escalators and passenger lifts reliability;
- 3.3.2 obligations on the Company to publish specific customer services pledges in relation to train service delivery, ticket machine reliability, ticket-gate reliability, escalators and passenger lifts reliability, temperature and ventilation levels, railway cleanliness (relating only to the Company's XRL trains) and passenger enquiry response time;
- 3.3.3 obligations in relation to the carrying out of the maintenance of the Company's XRL trains outside Hong Kong;
- 3.3.4 obligations on the Company to carry out design checks and tests to verify that the Mainland operator's XRL trains are compatible with the Company's infrastructure and can run on the XRL safely;
- 3.3.5 establishing procedures with the Mainland operator for approving the Mainland operator's trains to run on the XRL safely and for informing Government of the modification of any such trains;
- 3.3.6 developing and maintaining a training qualification system for drivers of XRL trains;
- 3.3.7 facilitating the carrying out of inspections by the railway inspector, including liaising with the Mainland operator for this purpose, where necessary;
- 3.3.8 security obligations in relation to maintaining the integrity and security of the boundaries of the Mainland Port Area and the Cross-Boundary Restricted Area; and
- 3.3.9 mechanisms and Government approval procedures for setting fares for XRL train journeys, including that: (i) prior to the Commercial Operation Date (XRL), the Company will seek prior written consent from Government before setting the fares for the various available XRL ticket types; and (ii) thereafter, fares cannot be adjusted, introduced or withdrawn without the prior consent of Government.

#### **4. Supplemental Service Concession Agreement**

##### **4.1 Existing Service Concession Agreement**

The Existing Service Concession Agreement prescribes the form of the supplemental service concession agreement for new concession projects such as the XRL. The SSCA supplements the Existing Service Concession Agreement, which regulates the operation of the part of the existing railway network over which KCRC has granted to the Company a concession, so that the XRL is subject to similar concession arrangements as that part of the existing railway network.

On 9 August 2007, in connection with the Rail Merger, the Company and KCRC entered into the Existing Service Concession Agreement. The Existing Service Concession Agreement is contemplated in the MTR Ordinance and regulates the operation by the Company of the KCRC railway system. Under the Existing Service Concession Agreement, KCRC granted the Company the right to access, use and operate the existing KCRC railway system for a concession period of 50 years.

Under the Existing Service Concession Agreement, the Company is obliged to pay to KCRC an annual fixed payment of HK\$750 million in each year of the concession period and variable annual payments which are calculated on a tiered basis by reference to the revenue generated from the KCRC railway system.

The Existing Service Concession Agreement also provides that, where a new railway project is to be the subject of a service concession granted by KCRC in favour of the Company, the Company and KCRC shall enter into a supplemental service concession agreement in the form prescribed in the Existing Service Concession Agreement.

For further details of the terms of the Existing Service Concession Agreement, please refer to pages III-8 to III-16 of the Rail Merger Circular.

#### 4.2 Supplemental Service Concession Agreement

On 23 August 2018, the Company and KCRC entered into the SSCA, to supplement the Existing Service Concession Agreement in order for KCRC to grant a concession to the Company in respect of the XRL and to prescribe the operational and financial requirements that will apply to the XRL. The intent and effect of the Supplemental Service Concession Agreement is that the operational requirements that are applicable to the Company's operation of the existing KCRC railway system will apply in substantially the same manner to the XRL, save where any amendments are necessary to reflect the particular characteristics of, and arrangements for, the XRL. The financial provisions in the Supplemental Service Concession Agreement have been designed to reflect the provisions of the Existing Integrated Operating Agreement that relate to new concession projects, such as the XRL (as referred to in paragraph 3.1 above) subject as set out below.

The SSCA is a "service concession agreement" for the purposes of the MTR Ordinance, forms part of the legal and regulatory regime for the operation of railways in Hong Kong and is required for the purposes of the MTR Ordinance so that the XRL is properly regulated under the MTR Ordinance.

#### 4.3 Principal Terms of the SSCA

The terms of the SSCA are based substantially on the terms of the Existing Service Concession Agreement, as explained in paragraph 4.2 above. The operating period with respect to the XRL will commence on the Commercial Operation Date (XRL) and will terminate automatically on the earlier of: (i) a revocation of the Company's franchise under the MTR Ordinance in whole or in respect of the XRL; and (ii) the date falling immediately before the tenth anniversary of the Commercial Operation Date (XRL), but may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA, in which case it shall terminate on such

other date as is agreed between the Company and KCRC (the “**Concession Period (XRL)**”).

Certain principal terms of the SSCA that are specific to the XRL include:

#### 4.3.1 Additional concession payments for the XRL

(i) *General*

The additional concession payments to be made by the Company to KCRC and by KCRC to the Company in respect of the XRL (described below) have been designed to reflect the requirements under the Existing Integrated Operating Agreement, inter alia, for the Company to retain 10% of the currently expected positive Discounted Net Cash Flow from the operation of the XRL (being discounted at a discount rate which reflects the Company’s commercial rate of return in relation to the XRL).

The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments, to reflect the current concession payments structure for the existing KCRC system under the Existing Service Concession Agreement.

The additional concession payments for the XRL are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the Existing Service Concession Agreement.

(ii) *Variable annual payments*

The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the Existing Service Concession Agreement whereby the Company pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system (being 35% for revenues generated from the KCRC system that are beyond the first HK\$7.5 billion). For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the XRL fares received or retained by the Company and revenue derived from businesses related to the XRL which may include, without limitation, advertising, telecommunications, duty free and kiosk rental.

(iii) *Fixed annual payments for the XRL*

In light of the variable annual payments described in paragraph 4.3.1(ii) above and in order for the Company to be able to retain 10% of the currently expected positive Discounted Net Cash Flow from the operation of the XRL as described above, the fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (XRL), will be equal to HK\$7,965 million.



These fixed annual payments shall be without prejudice to the Company's obligation to pay the fixed annual payments of HK\$750 million each financial year to KCRC under the Existing Service Concession Agreement.

#### 4.3.2 Revenue-related arrangements

In addition, the SSCA contains the following revenue-related arrangements:

(i) *Patronage adjustment*

In respect of actual deviations from the current patronage projections for the XRL:

- (a) any excess or shortfall in actual patronage of up to 15% in relation to the currently projected patronage for the XRL will be borne by the Company; and
- (b) any excess or shortfall in actual patronage greater than 15% in relation to the currently projected patronage for the XRL will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC.

(ii) *Incremental revenue adjustment*

In respect of actual deviations from the currently projected patronage for the Company's existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date (XRL) up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date (XRL), respectively) and which will be capped at HK\$500 million and HK\$1,000 million, respectively.

(iii) *Mainland discount programme loss*

In respect of revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator, the Company will receive reimbursement payments from KCRC on an annual basis.

KCRC and the Company will also discuss in good faith similar reimbursement arrangements should the Mainland operator introduce any other discount programmes in future.

(iv) *Service fees subsidy*

In respect of the proportion of the service fee charged in respect of tickets sold at West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland which

Government has directed should be borne by the Company, the Company will receive reimbursement payments from KCRC on an annual basis.

#### 4.3.3 Pre-operating costs reimbursements

In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date (XRL) that satisfy all of the following criteria:

- (i) that directly resulted from the planning and commencement of the operation of the relevant XRL assets;
- (ii) that have not already been paid, and will not be paid or payable, by Government to the Company under any relevant agreement or which the Company and Government otherwise agree in writing should be treated as a pre-operating cost;
- (iii) that are not covered in any of the payments to be made by KCRC to the Company under the SSCA; and
- (iv) that fall within certain other types of agreed costs and expenses in connection with the operation of the XRL (including, mobilisation activities in preparation for the opening of the XRL and trial operations prior to the opening of the XRL, and other items as may be agreed between KCRC and the Company).

#### 4.3.4 Equalisation payment

If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company. The intention of this equalisation payment is to ensure that the Company is partly protected in the event of early termination of the concession in respect of the XRL.

#### 4.3.5 Commercial Operation Date (XRL)

Government may not issue a notice designating the Commercial Operation Date (XRL) unless certain conditions have been fulfilled, including that the Co-location Ordinance has come into effect, the Company has obtained all necessary licences and permits, the AOA has come into effect and that the customs, immigration and quarantine facilities at West Kowloon Station have become operational.

#### 4.3.6 XRL services

The Company is obliged to operate the XRL during the Concession Period (XRL) to the standards prescribed in the MTR Ordinance and the Existing

Operating Agreement (subject as otherwise stated herein). The Company is not regarded as having failed to meet a requirement under the MTR Ordinance or the Existing Integrated Operating Agreement if the failure has resulted from anything done or omitted to be done by the Mainland operator, any Mainland authority or persons directly under their control.

#### 4.3.7 Return requirements

If the Concession Period (XRL) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the XRL concession property.

### 5. Operational arrangements

The Company has put in place the following operational arrangements:

- 5.1 with China Railway Corporation and China Railway Guangzhou Group Co. Ltd. (on behalf of itself and other Mainland operators) for the operational aspects of the XRL;
- 5.2 with Government for the operational aspects of the Hong Kong Port Area and the Hong Kong customs, immigration and quarantine areas; and
- 5.3 with the Port Office of the Shenzhen Government for the operational aspects of the Mainland Port Area and the Mainland customs, immigration and quarantine areas.

### 6. Waiver relating to connected transactions and continuing connected transactions

#### 6.1 General

As Government is a substantial shareholder of the Company (through FSI) and the sole shareholder of KCRC (through FSI, making KCRC an “associate” of Government for the purposes of the Listing Rules), the Relevant Agreements constitute continuing connected transactions for the Company.

#### 6.2 Existing Waivers

As disclosed in previous announcements made by the Company, given the unique nature of the Company, its business and its ongoing dealings with Government and its associates (including KCRC), at the time of the Company’s initial public offering and listing on the Stock Exchange (and as renewed thereafter) and again at the time of the Rail Merger, the Stock Exchange granted Waivers to the Company which, subject to certain conditions, exempt 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 and its associates (including KCRC). Had the Waivers not been granted, the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules would have been applicable.

Under the Waivers, in certain circumstances, the Company is required to make an announcement in respect of proposed connected transactions and continuing

connected transactions in accordance with Rule 14A.35 of the Listing Rules and to disclose details of such proposals in its next annual report in accordance with Rule 14A.71 of the Listing Rules. The Waivers also require the Company to make proposed connected transactions and continuing connected transactions subject to the approval of the Board, with the Directors appointed by Government under section 8 of the MTR Ordinance and any Director who holds a position in Government being required to abstain from voting.

The Board (including independent non-executive Directors but excluding the Directors who were appointed by the Government pursuant to section 8 of the MTR Ordinance or hold a position in Government, being James Henry Lau Jr (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Frank Chan Fan), Permanent Secretary for Development (Works) (Hon Chi-keung) and Commissioner for Transport (Mable Chan)) concluded that the XRL Arrangements are:

- (i) of a revenue nature and in the ordinary and usual course of business of the Company's group;
- (ii) on normal commercial terms; and
- (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole,

and approved the entry by the Company into the XRL Arrangements. The Directors who were appointed by Government pursuant to section 8 of the MTR Ordinance (referred to above), or who hold a position in Government (referred to above), were not present at the relevant Board meeting at which the XRL Arrangements were approved by the Board and did not vote on the relevant Board resolutions.

6.3 Details of the XRL Arrangements will be disclosed in the next annual report of the Company.

6.4 In addition:

6.4.1 the independent non-executive Directors of the Company will review the XRL Arrangements every year and confirm in the Company's annual report that the transactions have been entered into:

- (i) in the ordinary and usual course of the business of the Company's group;
- (ii) on normal commercial terms or better; and
- (iii) according to the XRL Arrangements on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole;

6.4.2 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 XRL Arrangements:

- (i) have been approved by the Board; and

(ii) have been entered into in accordance with the XRL Arrangements;

6.4.3 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 6.4.2 above;

6.4.4 the Company will state in its annual report whether its auditors have given the confirmation in paragraph 6.4.2 above; and

6.4.5 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 confirmation in paragraphs 6.4.1 and 6.4.2 above.

## **7. Principal activities of the Company**

The Company and its subsidiaries are principally engaged in the following core businesses: railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland and a number of overseas cities; project management in relation to railway and property development businesses in Hong Kong and the Mainland; 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 the Mainland; investment in Octopus Holdings Limited; and provision of railway management, engineering and technology training.

## **8. Definitions**

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

“AOA” or “Amendment Operating Agreement” means the Amendment Agreement to the Operating Agreement dated 23 August 2018 made between the Company and the Secretary for Transport and Housing for and on behalf of Government.

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

“Co-location Ordinance” means the Guangzhou-Shengzhen-Hong Kong Express Rail Link (Co-location) Ordinance (Cap. 632 of the Laws of Hong Kong).

“Company” means MTR Corporation Limited.

“Commercial Operation Date (XRL)” means the date to be designated in a notice by Government (acting through the Secretary for Transport and Housing), being the date of commencement of the commercial operation of the XRL.

“Concession Period (XRL)”	has the meaning ascribed thereto in paragraph 4.3 above.
“Co-operation Arrangement”	means the Co-operation Arrangement between the Mainland and the Hong Kong Special Administrative Region on the Establishment of the Port at the West Kowloon Station of the Guangzhou-Shenzhen-Hong Kong Express Rail Link for Implementing Co-location Arrangement signed by Government and the People’s Government of Guangdong Province on 18 November 2017.
“Cross-Boundary Restricted Area”	means the part of West Kowloon Station that is declared by the Company for the purposes of the Mass Transit Railway By-laws (Cap. 556B of the Laws of Hong Kong) as a “cross-boundary restricted area” from time to time.
“Director”	means a member of the Board.
“Discounted Net Cash Flow”	means Net Cash Flow discounted to a base date of 1 January 2018, at a discount rate which reflects the Company’s commercial rate of return in relation to the XRL.
“Existing Integrated Operating Agreement”	means the Integrated Operating Agreement dated 9 August 2007 made between the Company and the Secretary for Transport and Housing for and on behalf of Government, as amended (but excluding the Amendment Operating Agreement).
“Existing Service Concession Agreement”	means the Service Concession Agreement dated 9 August 2007 made between the Company and KCRC.
“FSI”	means The Financial Secretary Incorporated.
“Government”	means the Government of the Hong Kong Special Administrative Region.
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China.
“Incremental Revenues”	means: (a) the net fare revenues which are currently expected to be: (i) generated and retained by the Company; and (ii) received by the Company from the Mainland operator, in each case from the operation of the integrated railway (including the XRL) and resulting from its operation of the XRL (being net additional fare revenues which the Company would not have generated and retained, or received, if it did not operate the XRL) but, for the avoidance of doubt, excluding the effect of the revenue-related arrangements (as described in paragraph 4.3.2 above); and (b) the other net railway related revenues

which are currently expected to be generated by the Company (including, without limitation, revenues generated from station commercial rentals, advertising and haulage) from its operation of the XRL (but, for the avoidance of doubt, excluding the other railway related revenues which are currently expected to be generated by the Company from or on any other parts of the integrated railway as a consequence of the operation of the XRL), in each case, calculated by the Company on the assumption that the XRL will be operated by the Company for a period of 10 years from the commencement of operations thereof and based on the current base case financial estimate prepared by the Company in relation to the XRL.

“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.
“Mainland”	means the part of China other than Hong Kong, Macau and Taiwan.
“Mainland Port Area”	has the meaning ascribed thereto in the Co-location Ordinance.
“MTR Ordinance”	means the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong).
“Net Cash Flow”	means the Incremental Revenues minus: (i) the incremental operating costs and incremental ongoing capital expenditure which are currently expected to be borne by the Company from the operation of the integrated railway (including the XRL) and resulting from its operation of the XRL (being additional operating costs and ongoing capital expenditure which the Company would not have to bear if it did not operate the XRL), calculated on the assumption that the XRL will be operated by the Company for a period of 10 years from the commencement of operations thereof and based on the base case financial estimate prepared by the Company in relation to the XRL; and (ii) the currently expected incremental tax charge which will need to be borne by the Company as operator of the XRL and which is attributable to the XRL, calculated by the Company using projections, including for economic, demographic, transport policy and financial assumptions which, at the time the Company makes such calculation, are reasonable.
“Rail Merger”	the merger of the rail operations of the Company and KCRC which took place on 2 December 2007, as

	more particularly described in the Rail Merger Circular.
“Rail Merger Circular”	means the circular issued by the Company on 3 September 2007 in connection with the Rail Merger.
“Relevant Agreements”	means the AOA, the SSCA and the arrangements referred to in paragraph 5.2 above.
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited.
“SSCA” or “Supplemental Service Concession Agreement”	means the Supplemental Service Concession Agreement No.1 dated 23 August 2018 made between the Company and KCRC.
“Waivers”	means the waivers previously granted by the Stock Exchange to the Company in respect of connected transactions and continuing connected transactions between the Company and Government (and its associates), as described in paragraph 6.2 above (further details of which are contained in the section of the Rail Merger Circular entitled “Relationship with Government”).
“XRL” or “Express Rail Link”	means the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link.
“XRL Arrangements”	means the arrangements pursuant to the AOA, the SSCA and the arrangements referred to in paragraph 5 above.

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

Hong Kong, 23 August 2018

*Members of the Board:* Professor Frederick Ma Si-hang (*Chairman*)\*\*, Lincoln Leong Kwok-kuen (*Chief Executive Officer*), Andrew Clifford Winawer Brandler\*, Dr Pamela Chan Wong Shui\*, Dr Dorothy Chan Yuen Tak-fai\*, Vincent Cheng Hoi-chuen\*, Anthony Chow Wing-kin\*, Dr Eddy Fong Ching\*, James Kwan Yuk-choi\*, Lau Ping-cheung, Kaizer\*, Rose Lee Wai-mun\*, Lucia Li Li Ka-lai\*, Abraham Shek Lai-him\*, 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) (Hon Chi-keung)\*\* and Commissioner for Transport (Mable Chan)\*\*

*Members of the Executive Directorate:* Lincoln Leong Kwok-kuen, Jacob Kam Chak-pui, Margaret Cheng Wai-ching, 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 Meichun

\* *independent non-executive Director*

\*\* *non-executive Director*

*James Henry Lau Jr (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Frank Chan Fan), Permanent Secretary for Development (Works) (Hon Chi-keung) and Commissioner for Transport (Mabel Chan) were not present at the relevant Board meeting at which the XRL Arrangements were approved by the Board and did not vote on the relevant Board resolutions.*

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