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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)

CONTINUING CONNECTED TRANSACTION

On 17 May 2011, the Company entered into the Contract with LCAL for the construction of the Works in relation to the South Island Line (East) for a period of 51 months from 29 April 2011 to 30 June 2015.

The Company controls 60% of the voting power at any general meeting of MTM and John Holland controls 20% of the voting power at any general meeting of MTM. Accordingly, John Holland is treated as a substantial shareholder of MTM. As MTM is a subsidiary of the Company, John Holland is therefore a “connected person” of the Company within the meaning of Chapter 14A of the Listing Rules. Both John Holland and LCAL are indirect wholly owned subsidiaries of Leighton Holdings Limited. On this basis, LCAL is an associate of John Holland and is therefore also a “connected person” of the Company.

The Contract is a “continuing connected transaction” within the meaning of Listing Rule 14A.14 and, under Listing Rule 14A.34, the Company is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules and the requirements of Listing Rules 14A.35(1) and 14A.35(2).

This announcement is made pursuant to Listing Rule 14A.47.

THE CONTRACT

On 17 May 2011, the Company entered into the Contract with LCAL. The Contract is in substantially the same form as the Company’s standard conditions of contract for engineering works and contains (inter alia) the following terms:

Parties

- (1) The Company; and

(2) LCAL.

Obligations of LCAL

Under the terms of the Contract, the principal obligation of LCAL is the construction of the Works.

LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Works, or the right of the Company to execute the Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL.

LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment.

LCAL shall effect and maintain insurance with a limit of not less than HK\$200,000,000.00 in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016.

Pursuant to the terms of the Contract, a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under the Contract.

Limitations of liability of LCAL

LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage.

The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under the Contract.

Obligations of the Company

The total amount payable by the Company to LCAL under the Contract is HK\$2,513,394,379.00, which includes the target cost for the Works and fees to LCAL. From time to time the scope of Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract.

Under the terms of the Contract, the Company is obliged to pay the target cost for the Works to LCAL on a scheduled basis set out in the Contract. If the final total cost of the Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with the Contract.

The maximum aggregate amount payable annually by the Company under the Contract is approximately HK\$1,400,000,000.00. As payments by the Company to LCAL are paid on a scheduled basis as set out in the Contract, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule.

Under the terms of the Contract, the Company is obliged to effect “Contractor’s All Risks” and “Third Party Liability” insurance with a third party liability limit of not less than HK\$700,000,000.00.

Termination

The Company may at any time, by giving 30 days’ notice in writing to LCAL, terminate the Contract but without prejudice to any claims by the Company for breach of contract.

REASONS FOR, AND BENEFITS OF, THE CONTRACT

The terms of the Contract were agreed upon subsequent to a tender process pursuant to which submissions were invited from a number of contractors, including LCAL.

The South Island Line (East) will be a medium capacity railway connecting the MTR network at Admiralty to the Southern District of Hong Kong, via new stations at Ocean Park, Wong Chuk Hang, Lei Tung and South Horizons. The scheme for the South Island Line (East) was gazetted in July 2009 and further amendments to the scheme was gazetted in June 2010. LCAL is considered to be one of the leading contractors and project developers for civil and infrastructure projects in Asia. LCAL’s tender offered the lowest risk adjusted outturn cost to the Company.

GENERAL

As John Holland is entitled to exercise 20% of the voting power at any general meeting of MTM, it is a “substantial shareholder” of MTM under Listing Rule 1.01. Under Listing Rule 14A.11, a “connected person” is defined to include a substantial shareholder of the listed issuer. Under Listing Rule 14A.10(7) and Listing Rule 14.04(6), the definition of “listed issuer” includes, unless the context otherwise requires, the subsidiaries of such listed issuer. As the Company controls 60% of the voting power at any general meeting of MTM, MTM is deemed to be a subsidiary of the Company. John Holland is therefore treated as a “connected person” of the Company. Both John Holland and LCAL are indirect wholly owned subsidiaries of Leighton Holdings Limited. On this basis, LCAL is an associate of John Holland and is therefore also a “connected person” of the Company.

As the relevant percentage ratios in relation to the Contract are more than 1% but less than

5%, Listing Rule 14A.34 requires the Company to comply with the reporting, announcement and annual review requirements of Chapter 14A of the Listing Rules in respect of continuing connected transactions and with Listing Rules 14A.35(1) and 14A.35(2).

The Contract is therefore a continuing connected transaction of the Company requiring the following to be complied with under Chapter 14A of the Listing Rules:

- (a) this announcement to be made in accordance with Rule 14A.47 of the Listing Rules;
- (b) the independent non-executive Directors to review the transactions under the Contract every year and confirm in the Company's annual report that such transactions have been entered into:
 - (1) in the ordinary and usual course of the business of the Company;
 - (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and
 - (3) in accordance with the Contract on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (c) the auditors of the Company to provide a confirmation letter to the Board each year (with a copy to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) in accordance with Listing Rule 14A.38;
- (d) the Company to allow and 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 (c) above;
- (e) the Company to state in its annual report whether its auditors have given the confirmation in (c) above; and
- (f) the Company to notify the Stock Exchange promptly and publish an announcement if it knows or has reason to believe the independent non-executive Directors and/or the auditors of the Company will not be able to give the confirmations in (b) and (c) above.

The Directors (including the independent non-executive Directors) believe that the terms of Contract are on normal commercial terms, in the ordinary and usual course of business of the Company and fair and reasonable and in the interests of the shareholders of the Company as a whole.

No member of the Board and no member of the Executive Directorate has a material

interest in the Contract.

OPINION OF THE INDEPENDENT FINANCIAL ADVISER

Where a contract in respect of continuing connected transactions is of a duration longer than three years, Listing Rule 14A.35(1) requires an independent financial adviser to explain why a longer period for such a contract is required and to confirm that it is normal business practice for contracts of this nature to be of such duration.

The Contract will be for a duration of 4 years and 3 months.

The Company's independent financial adviser, Somerley, has concurred with the Company's view that a period longer than three years for the Contract is required for the purposes of the Contract and that it is normal business practice for contracts of this type to be of such duration.

PRINCIPAL ACTIVITIES OF THE COMPANY

The principal activities of the Company and its subsidiaries are:

- (a) the operation of a modern railway system with lines from Central to Tsuen Wan (**Tsuen Wan Line**), from Yau Ma Tei to Tiu Keng Leng (**Kwun Tong Line**), from Po Lam and LOHAS Park to North Point (**Tseung Kwan O Line**), from Chai Wan to Sheung Wan (**Island Line**), from Hong Kong to Tung Chung (**Tung Chung Line**), from Hong Kong to the Hong Kong International Airport and then AsiaWorld-Expo both at Chek Lap Kok (**Airport Express Line**), from Sunny Bay to Disneyland Resort (**Disneyland Resort Line**), from Hung Hom to the boundary at Lo Wu and Lok Ma Chau (**East Rail Line**), from Tai Wai to Wu Kai Sha (**Ma On Shan Line**), from Hung Hom to Tuen Mun (**West Rail Line**), the North-west Railway (commonly known as Light Rail) in the North-West New Territories of Tuen Mun, Tin Shui Wai and Yuen Long and an intercity railway system between Hong Kong and some major cities in the Mainland of China, and feeder bus services in support of West Rail Line, East Rail Line and Light Rail;
- (b) property development, either as owner or as an agent for KCRC, at locations along the related railway lines including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail and the West Rail Line;
- (c) related commercial activities, including the letting of advertising and retail space, enabling telecommunication services on the railway system, property management and leasing management of investment properties (including shopping malls, offices and residential units);
- (d) the investment in a 50% equity share in the operation of the seven-year UK's London Overground Concession in the United Kingdom, consisting of five London railway lines;

- (e) the investment in the operation (including rolling stock maintenance which is undertaken by a 50:50 joint venture) of the eight-year Sweden's Stockholm Metro Concession, consisting of three lines, linking the Swedish capital's central areas with surrounding suburbs;
- (f) the investment in a 60% equity share in the operation and maintenance of Australia's Melbourne train system, consisting of 15 lines, linking Melbourne's central business district with surrounding suburbs, under a franchise agreement with an initial period of eight years;
- (g) the design and construction of the West Island Line as an extension of the Island Line;
- (h) the design, construction, procurement of services and equipment and all other matters associated with bringing the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link into service;
- (i) the design of the Kwun Tong Line Extension and the South Island Line (East) as the railway system extensions for which scheme authorisation has been granted;
- (j) the planning and design of the Shatin to Central Link as a major project which Government has confirmed policy support;
- (k) the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;
- (l) worldwide consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and upgrading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;
- (m) investment in Octopus Holdings Limited, a subsidiary of the Company, which has business activities both in Hong Kong and overseas including the operation of a smart card system by its subsidiary Octopus Cards Limited for the collection of payments for both transport and non-transport applications in Hong Kong;
- (n) equity investments and long term operation and maintenance contracts outside of Hong Kong;
- (o) property management, shopping centre investment and railway related property development business in the Mainland of China;
- (p) the investment in a 49% equity interest in a joint venture for the investment, construction and operations of Beijing Metro Line 4 in the Mainland of China, under a 30 years concession agreement with the Beijing Municipal Government, and operations and maintenance of Beijing Metro Daxing Line, an extension of the Beijing Metro Line 4, under a 10 year operations and maintenance

concession agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government; and

- (q) the investment in the design, construction and future operations of Phase 2, together with operations of Phase 1 of Shenzhen Metro Line 4, a double-track urban railway running from Futian Checkpoint at the boundary between Hong Kong and Shenzhen, Mainland of China, to Longhua New Town in Shenzhen, under a 30 years Build-Operate-Transfer concession agreement with the Shenzhen Municipal Government.

DEFINITIONS

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

“**Board**” means the board of directors of the Company.

“**Contract**” means “Contract 903” between the Company and LCAL, a summary of which is set out in the section titled “THE CONTRACT” in this announcement.

“**Director**” means a member of the Board.

“**Engineer**” means the Company’s Chief Electrical and Mechanical Engineer.

“**HK\$**” means Hong Kong dollars, the currency of Hong Kong.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**John Holland**” means John Holland Melbourne Rail Franchise Pty Ltd.

“**KCRC**” means the Kowloon-Canton Railway Corporation.

“**LCAL**” means Leighton Contractors (Asia) Limited.

“**Listing Rules**” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

“**MTM**” means Metro Trains Melbourne Pty Ltd, a joint venture company incorporated in Australia.

“**SFO**” means the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

“**Somerley**” means Somerley Limited, a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities (each as defined in Schedule 5 to the SFO) and appointed as the independent financial adviser to the

Company.

“South Island Line (East)” means the proposed railway running from Admiralty station to South Horizons station, with three intermediate stations at Ocean Park, Wong Chuk Hang and Lei Tung.

“Stock Exchange” means The Stock Exchange of Hong Kong Limited.

“Works” means any item of work which is described as such under the Contract including but not limited to:

- (a) construction of a viaduct structure from the railway box structure to Aberdeen Channel Bridge including the depot entry section and associated ancillary facilities;
- (b) construction of above ground Ocean Park and Wong Chuk Hang Stations and associated entrances, footbridges, ancillary and ventilation facilities and property enabling works;
- (c) widening of the existing Wong Chuk Hang nullah and permanent decking to support a public transport interchange; re-provisioning works and associated permanent and temporary road and utility diversions;
- (d) construction of Aberdeen Channel railway bridge and associated marine structures;
- (e) piling works, demolition of remaining building foundations and slope retaining structure;
- (f) construction of noise barriers / enclosures over the bridge and viaducts;
- (g) construction of footbridge superstructure connection between Ocean Park Station and Ocean Park Entrance Plaza;
- (h) widening, re-pairing, utilities diversions and junction improvement of Heung Yip Road and adjoining junctions at Wong Chuk Hang Road;
- (i) construction of public transport interchange and associated facilities at the widened Heung Yip Road and road improvement works at Wong Chuk Hang Road, Police School Road, Nam Long Shan Road and Ocean Park Road;
- (j) construction of Park & Ride facility at Ocean Park Station and associated roads and junction improvement work at Wong Chuk Hang and Ocean Park Roads; and
- (k) slope retaining structures, reinstatement, improvement and registration.

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

Hong Kong, 18 May 2011

Members of the Board: Dr. Raymond Ch'ien Kuo-fung (*Chairman*)**, Chow Chung-kong (*Chief Executive Officer*), Vincent Cheng Hoi-chuen*, Christine Fang Meng-sang*, Edward Ho Sing-tin*, 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 (Eva Cheng)*** and *Commissioner for Transport (Joseph Lai Yee-tak)***

Members of the Executive Directorate: Chow Chung-kong, William Chan Fu-keung, Chew Tai Chong, Thomas Ho Hang-kwong, Jacob Kam Chak-pui, Lincoln Leong Kwok-kuen and Leonard Bryan Turk

* *independent non-executive Directors*

** *non-executive Directors*

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

