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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

TUNG CHUNG LINE EXTENSION

EXECUTION OF PROJECT AGREEMENT

On 28 February 2023, the Company entered into the project agreement for the financing, design, construction, completion, pre-operation, operation and maintenance of the Tung Chung Line Extension (the "TUE Project Agreement") with the Secretary for Transport and Logistics for and on behalf of the Government. Further details relating to the TUE Project Agreement 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 OF THE TUNG CHUNG LINE EXTENSION

In January 2018, the Company submitted to the Government a proposal for the TUE Project. On 14 January 2020, the Chief Executive in Council approved proceeding with the detailed planning and design of the TUE. The Company was invited to commence the detailed planning and design of the TUE in April 2020. The railway scheme of the TUE was gazetted under the Railways Ordinance in December 2021. The implementation of the TUE Project was authorised by the Chief Executive in Council under the Railways Ordinance on 10 January 2023.

The Company expects to commence construction around May 2023 for expected completion of two new stations, namely Tung Chung East Station and Tung Chung West Station and the associated railway works in December 2029, while the ARO is targeted to be in operation by the end of 2032.

THE TUE PROJECT AGREEMENT

On 28 February 2023, the TUE Project Agreement was entered into for the financing, design, construction, completion, pre-operation, operation and maintenance of the TUE, and related services and facilities, which will be owned, operated and maintained by the Company for its own account for the Franchise Period.

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 TUE Works and the ARO Works and shall bring into operation, operate and maintain the TUE Works and ARO Works. The design, construction, completion, testing, commissioning, pre-operation, operation and maintenance of the TUE Works and ARO Works shall be carried out in a manner which reflects the Company's responsibilities and duties under the MTR Ordinance, the Operating Agreement and the TUE Project Agreement and in accordance with applicable laws and regulations.

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

The Company shall carry out the TUE Project 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 a new railway line of the type and scope of the TUE Project.

The Company shall on its own pay for the full amount of the TUE Cost and ARO Cost and shall bear all land acquisition costs arising from the TUE Project. The Company expects to incur the TUE Cost and the ARO Cost over the next 10 years or so and to fund such costs from the financial contribution from the proposed property development described below and its internal resources.

The Company shall use its reasonable endeavours to complete the TUE Project so as to enable Commercial Operations of each of the TUE Stations and the ARO by their respective Scheduled Operating Dates. The Company expects to commence construction of the TUE Project in 2023 with a view to Commercial Operations of the TUE Stations commencing by December 2029 and the ARO being in operation by the end of 2032.

In the event that Commercial Operations of the TUE Stations or the ARO commence on a date which is beyond the respective 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 carry out and complete any environmental impact assessments necessary for the construction and operation of the TUE Works and the ARO Works which are to be submitted to the Director of Environmental Protection. The Company shall, at its own cost, carry out the measures specified in the environment impact assessments and environmental permits 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 TUE Project, in accordance with the terms of the TUE Project Agreement.

The ARO was included in the scope of works under the Agreement for the Airport Railway Project. Given that, pursuant to the Agreement for the Airport Railway Project, the Company is required to bear and finance the full amount of the ARO Cost and that any financial support required by the Company from the Government in connection with the ARO Works was addressed in full under the Agreement for the Airport Railway Project, the ARO Cost has not been included in the Company's estimation of the funding gap of the TUE Project (and any references in this announcement to the funding gap of, or to the earning of a commercial rate of return on, the TUE Project should be read accordingly).

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 TUE Project Agreement;
- (ii) use reasonable endeavours to make land available to the Company for the timely implementation of the TUE Project;
- (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 TUE and the ARO;
- (iv) permit the Company to sublet or part with possession of, or carry out trades or activities, at the TUE Stations (including the station footbridges); and
- (v) permit the Company to undertake property development at the TUE Proposed Development Site for the purpose of bridging the funding gap of the TUE Project as described in more detail below.

The TUE Project Agreement states 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 TUE as are compatible with the MTR Ordinance, the Operating Agreement and the TUE Project Agreement.

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 take forward collaborative work initiatives, including developing a charter for fostering a shared vision of the TUE Project and adopting collaborative working behaviours.

TUE 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.

The TUE Proposed Development Site

The TUE Proposed Development Site is approximately 7.61 hectares and its proposed uses are residential, commercial, railway facilities and public transport interchange.

The TUE Proposed Development Site has been identified and the Company shall be permitted to undertake commercial and residential property development thereat to contribute to the financial return of the TUE Project so that the Company can achieve an appropriate commercial rate of return on the TUE Project.

Subject to the approval of the Chief Executive in Council and, where applicable, the Town Planning Board, the Company shall be permitted to undertake commercial and residential property development at the TUE Proposed Development Site. 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 TUE Proposed Development Site

The Operating Agreement provides that, 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 amounts payable by the Company will be assessed on a “full market value” basis ignoring the presence of the railway. For this purpose, “full market value” basis ignoring the presence of the railway” means the full market value as assessed by the Government without having regard to any effect the presence of the railway may have on the site being valued.

For the TUE Proposed Development Site, a modified arrangement has been agreed and is reflected in the TUE Project Agreement. The total amount of land premium payable by the Company in respect of the entire TUE Proposed Development Site shall be assessed by the Government as the full market value of the site (taking into account the presence of the railway) less the Reduction Amount. The TUE 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 Reduction Amount being deducted.

The parties acknowledge that the land premium assessment in respect of the TUE Proposed Development Site (as described above) has certain differences compared to the approach contemplated in the Operating Agreement, in that the land premium assessment for the TUE Proposed Development Site will: (i) take full account of the presence of the railway; and (ii) be reduced by the Reduction Amount, as described above. The parties have agreed in the TUE Project Agreement that the approach to the assessment of land premium for the TUE Proposed Development Site shall not serve as a precedent for any land premium assessment of any site for commercial and residential property development for any future project.

The commercial risks associated with the rail-plus-property model generally arising from the modified approach to the assessment of the land premium for the TUE Proposed Development Site are, in substance, similar to those associated with previous Rail-plus-Property projects undertaken by the Company. However, for the TUE Proposed Development Site, the amount to be deducted from the full market value of the relevant land (taking into account the presence of the railway), being the Reduction Amount, will not be adjusted in the future notwithstanding any fluctuations in land values.

The amount of financial contribution from the development of the TUE Proposed Development Site will depend on a number of factors including: (i) the condition of the property market in the future; (ii) the future cost of such property development, including Government land premium, construction costs, marketing and sales expenses, finance charges and other expenses; and (iii) the actual gross floor area of the relevant development. **There is no guarantee as to the amount of financial contribution from such property development nor that any such contribution, in combination with profits from the rail and related operations of the TUE, will result in the Company achieving a commercial rate of return on the TUE Project.**

REASONS FOR, AND BENEFITS OF, THE TUE PROJECT AGREEMENT

Consistent with, and to further develop, its principal business activities (as described below), the Company has entered into the TUE Project Agreement which will enable the Company to expand its railway network through the implementation of the TUE Project 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 TUE (as well as contributing to future rail patronage from the immediate catchment areas created by such property development) in order to be able to achieve an appropriate commercial rate of return on the TUE Project.

In considering the TUE Project, 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 the TUE Project Agreement is 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 relevant Board meeting when the TUE Project Agreement was approved by the Board and did not vote on the relevant Board resolutions.

DEFINITIONS

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

"Agreement for the Airport Railway Project"

means the Agreement for the Design, Construction, Financing and Operation of the Airport Railway between the Government and the Mass Transit Railway Corporation (the predecessor of the Company) on 5 July 1995;

“ARO”	means the further extension of overrun tunnels of the existing Airport Express Line and existing Tung Chung Line;
“ARO Cost”	means the amount payable for the ARO Works (but excluding the amount payable for the NIL Connection Enabling Feasibility Study). The ARO Cost is estimated to be around HK\$5.0 billion (December 2020 prices);
“ARO Works”	means all works which are described as such under the TUE Project Agreement which are necessary for the construction of the ARO;
“Commercial Operations”	means, in relation to the TUE Stations, the operation of railway services at the TUE Stations on a revenue earning basis by providing scheduled transport to the public and, in relation to the ARO, the use of the ARO in connection with the provision of scheduled transport to the public on the Airport Express Line and the Tung Chung Line;
“Franchise Period”	has the meaning ascribed to that term in the MTR Ordinance;
“Government”	means the government of Hong Kong;
“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;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Merger Circular”	means the circular issued by the Company dated 3 September 2007;
“MTR Ordinance”	means the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong);
“NIL Connection Enabling Feasibility Study”	means the necessary preliminary feasibility study for the civil enhancement works to enable potential connection of the future North Island Line to the Tung Chung Line as part of the ARO Works;
“Operating Agreement”	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;
“Railways Ordinance”	means the Railways Ordinance (Chapter 519 of the Laws of Hong Kong);
“Reduction Amount”	means a total fixed amount of HK\$18,364.50 million, which was calculated as follows: <ul style="list-style-type: none"> (i) by reference to the expected funding gap arising from the TUE Project (which was estimated to be HK\$15,500.00 million at July 2022 net present value); and (ii) divided into specific tranches, after escalation to the relevant date, for each portion of the TUE Proposed

Development Site.

“RRIW”	means all works which are described as such under the TUE 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 required as a consequence of the construction of the TUE. Following completion of the RRIW, they shall be handed over, owned, managed, maintained and controlled by such private owner, the Government or, public bodies;
“Scheduled Operating Date(s)”	means the date on which Commercial Operations of the TUE Stations or the ARO is scheduled to commence;
“TUE” and “Tung Chung Line Extension”	means the: (i) extension of the existing Tung Chung Line west from the existing Tung Chung Station; (ii) the new terminal station at Tung Chung West; (iii) the realignment of the existing Tung Chung Line between Tung Chung Station and Sunny Bay Station; (iv) the new intermediate station at Tung Chung East along the realigned track; and (v) the new ancillary building at Shun Tung Road to serve the tunnels between the existing Tung Chung Station and the new terminal station at Tung Chung West;
“TUE Cost”	means all amounts payable for the TUE Works. The TUE Cost is estimated to be around HK\$19.5 billion (December 2020 prices);
“TUE Project”	means the TUE Works, the ARO Works, the NIL Connection Enabling Feasibility Study and the RRIW;
“TUE Project Agreement”	means the project agreement entered into on 28 February 2023 by the Secretary for Transport and Logistics for and on behalf of Government and the Company, for the financing, design, construction, completion, pre-operation, operation and maintenance of the TUE and related services and facilities;
“TUE Proposed Development Site”	means the land at Area 113 of Tung Chung East Reclamation area zoned “Other Specified Uses” annotated “Commercial and Residential Development cum Public Transport Interchange” in the Approved Tung Chung Extension Area Outline Zoning Plan No. S/I-TCE/2 (as amended from time to time);
“TUE Stations”	means the railway stations proposed to be constructed at Tung Chung East and Tung Chung West; and
“TUE Works”	means all works which are described as such under the TUE Project Agreement which are necessary for the construction of the TUE.

By Order of the Board
Gillian Elizabeth Meller
Company Secretary

Hong Kong, 28 February 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 Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Hui Siu-wai*, Sunny Lee Wai-kwong*, Dr Rose Lee Wai-mun*, Jimmy Ng Wing-ka*, Carlson Tong*, Adrian Wong Koon-man*, Johannes Zhou Yuan*, 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 (Rosanna Law Shuk-pui)**

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 Directors*

** *non-executive Directors*

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