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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 30 November 2007, KCRC entered into the Original Contract with UGL, for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of the Hong Kong Special Administrative Region).

As stated in the announcement dated 1 September 2009, the Company, UGL and JHL each agreed to subscribe for shares in MTM with the effect that the Company controls 60% of the voting power at any general meeting of MTM and each of UGL and JHL controls 20% of the voting power at any general meeting of MTM. Accordingly, UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules.

On 26 February 2010 the Company entered into the Supplemental Agreement. The Supplemental Agreement is a "continuing connected transaction" within the meaning of Rule 14A.14 and, under Listing Rule 14A.34, the Company is subject to the reporting and announcement requirements set out in Listing Rules 14A.45 to 14A.47 (inclusive) and the requirements of Listing Rules 14A.35(1) and 14A.35(2).

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

### **THE ORIGINAL CONTRACT AND THE SUPPLEMENTAL AGREEMENT**

On 30 November 2007, KCRC entered into the Original Contract with UGL. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of the Hong Kong Special Administrative Region). On 26 February 2010, the Company entered into the Supplemental Agreement for the extension of the Original Contract for a further period of 16 months from 31 August 2011 until 31

December 2012. The Original Contract (as amended and supplemented by the Supplemental Agreement) is in substantially the same form as KCRC's standard conditions of contract for engineering works and contains (inter alia) the following terms:

**Parties**

- (1) KCRC until and including 1 December 2007 and thereafter the Company (see paragraph above); and
- (2) UGL.

**Obligations of UGL**

Under the terms of the Original Contract (as amended and supplemented by the Supplemental Agreement), the principal obligations of UGL comprise the following:

- (a) carrying out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs;
- (b) refurbishing the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs;
- (c) conducting a brake software upgrade of the Phase 1 LRVs; and
- (d) carrying out further miscellaneous repairs to the Phase 1 LRVs

(together the "**Refurbishment Works**").

UGL 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 equipment or other property whatsoever which may arise out of or in connection with the Refurbishment Works and against all claims, proceedings, damages, costs, charges and expenses in respect of or in relation thereto, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer.

UGL 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 UGL arising out of and in the course of such employment.

UGL shall effect and maintain insurance with a limit of not less than HK\$100,000,000 in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the issue of the Substantial Completion Certificate.

Pursuant to the terms of the Original Contract, a bank guarantee issued by HSBC Bank Australia Limited has been provided to the Company in respect of the obligations of UGL

under the Original Contract.

#### ***Limitations of liability of UGL***

UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage.

The total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights.

The total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract.

Subject to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

#### ***Obligations of the Company***

In consideration of UGL providing the Refurbishment Works under the Original Contract, the Company is obliged to pay UGL a total sum of approximately HK\$48,260,000 (excluding amounts for variations and additional works). The Supplemental Agreement, inter alia, extended the scope of the Refurbishment Works of the Original Contract and the consideration payable by the Company to UGL for such extension is HK\$83,736,143 (the "**Contract Sum**"). The total sum under the Original Contract plus the Contract Sum is to be paid on a scheduled basis set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Engineer to the scope of the Maintenance Services. The maximum aggregate amount payable annually by the Company under the Original Contract and the Supplemental Agreement is approximately HK\$72,390,000.

Under the terms of the Original Contract (as amended and supplemented by the Supplemental Agreement), 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\$30,000,000.

#### ***Termination***

If UGL fails to complete the Refurbishment Works within the contract period, the Engineer may terminate the contract by notice in writing to UGL but without prejudice to any claims by the Company for breach of contract.

## **REASONS FOR, AND BENEFITS OF, THE ORIGINAL CONTRACT AS AMENDED AND SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT**

The terms of the Original Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

UGL is part of an Australian-listed group of engineering and property services companies and is one of the Asia Pacific region's leading providers of end-to-end passenger rail solutions. UGL is also one of Asia Pacific's largest and most experienced providers of rolling-stock and infrastructure solutions to the passenger and freight rail sectors.

### **GENERAL**

As UGL 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. Following the Company's acquisition of 60% of the voting power at any general meeting of MTM, MTM is deemed to be a subsidiary of the Company. UGL is therefore treated as a "connected person" of the Company. Listing Rule 14A.34 requires listed issuers to comply with the disclosure and reporting requirements of Chapter 14A in respect of continuing connected transactions and with Listing Rules 14A.35(1) and 14A.35(2).

The Original Contract (as amended by the Supplemental Agreement) 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 Original Contract (as supplemented and amended by the Supplemental Agreement) 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 Original Contract (as amended and supplemented by the Supplemental Agreement) 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 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), confirming that the transactions under the Original Contract (as amended and supplemented by the Supplemental Agreement):
- (1) have been approved by the Board;
  - (2) have been entered into in accordance with the Original Contract (as amended and supplemented by the Supplemental Agreement); and
  - (3) have not exceeded the cap, being the maximum aggregate amount payable annually by the Company under the Original Contract and the Supplemental Agreement (as referred to in the section above entitled "Obligations of the Company").
- (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 the Original Contract (as amended and supplemented by the Supplemental Agreement) are fair and reasonable and in the interests of the shareholders of the Company as a whole.

#### **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;

- (b) property development, either as owner or as an agent for KCRC, at locations relating to the railway system 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, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping centres, offices and residential units);
- (d) the investment in a 50% equity share in the operation of the seven-year London Overground Concession in the United Kingdom, consisting of four London railway lines with connections into the London Underground network;
- (e) the investment in the operation (including rolling stock maintenance which is undertaken by a 50:50 joint venture) of the eight-year Stockholm Metro Concession in Sweden, 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 the Melbourne train system in Australia, 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 further design, construction, procurement of services and equipment, testing, commissioning and all other matters associated with bringing the Express Rail Link into service;
- (i) the planning and construction of future extensions to the railway system and other related infrastructure projects including the South Island Line, the Kwun Tong Line Extension and the Shatin to Central Link, as the major projects for which the Government has confirmed policy support;
- (j) the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;
- (k) worldwide consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;

- (l) 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;
- (m) equity investments and long term operation and maintenance contracts outside of Hong Kong;
- (n) property management, shopping centre investment and railway related property development business in the Mainland of China;
- (o) the investment in a 49% equity interest in the 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 future operations and maintenance of Beijing Metro Daxing Line, an extension of the Beijing Metro Line 4, under a concession agreement with the Beijing Municipal Government with an initial period of 10 years;
- (p) the investment in, design and construction of, Phase 2 of Shenzhen Metro Line 4 together with future operations of Phase 1 and Phase 2 in the Mainland of China, 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; and
- (q) the investment in a 49% equity interest in future operations and maintenance of Shenyang Metro Line 1 and Line 2 in the Mainland of China, for a franchise fee with a concession period of 30 years with Shenyang 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.

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

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

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

“**JHL**” means John Holland Melbourne Rail Franchise Pty Limited.

“**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.

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

**"Original Contract"** means the contract entered into on 30 November 2007 between KCRC and UGL for the refurbishment of Phase 1 LRVs and known as Contract No. C2007-0015.

**"Phase 1 LRVs"** means a fleet of 69 light rail vehicles commissioned in 1988.

**"Stock Exchange"** means The Stock Exchange of Hong Kong Limited.

**"Substantial Completion Certificate"** means a certificate issued when the Refurbishment Works are substantially complete, and the date of substantial completion shall be the date identified in the certificate.

**"Supplemental Agreement"** means the contract entered into on 26 February 2010 between the Company and UGL for the extension of the Original Contract for a further period of 16 months from 31 August 2011 and known as Contract No. C2007-0015 for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles, Supplementary Agreement No. 1.

**"UGL"** means United Group Rail Services Limited (formerly known as A Goninan & Co. Ltd).

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

Hong Kong, 26 February 2010

*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\*, 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, Lincoln Leong Kwok-kuen, Andrew McCusker 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.*

