
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Circular does not constitute, or form part of, an offer or invitation, or solicitation or inducement of an offer, to subscribe for or purchase any of the Shares or other securities of the Company.

If you are in any doubt as to any aspect of this Circular, or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand this Circular and the accompanying Proxy Form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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MTR CORPORATION LIMITED 香港鐵路有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 66)

HONG KONG SECTION OF THE GUANGZHOU - SHENZHEN - HONG KONG EXPRESS RAIL LINK (1) NOTIFIABLE TRANSACTION (2) CONNECTED TRANSACTION AND AMENDMENT OF CONTINUING CONNECTED TRANSACTION (3) CONDITIONAL SPECIAL DIVIDEND (4) NOTICE OF GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the
Independent Shareholders



Anglo Chinese Corporate Finance, Limited

It is important to note that the purpose of distributing this Circular is to provide the Independent Shareholders of the Company with information, amongst other things, on the XRL Agreement and XRL Arrangements, so that they may make an informed decision on voting in respect of the Resolution.

A letter from the Board is set out on pages 19 to 38 (inclusive) of this Circular.

A letter from the Independent Board Committee, containing its advice to the Independent Shareholders, is set out on pages 39 to 40 (inclusive) of this Circular.

A letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and to the Independent Shareholders, is set out on pages 41 to 59 (inclusive) of this Circular.

A notice convening the General Meeting to be held on 1 February 2016 at 11:00 a.m. at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Hong Kong is set out on pages N-1 to N-2 (inclusive) of this Circular. A Proxy Form for use in relation to the General Meeting is also enclosed with this Circular.

Whether or not you are able to attend the General Meeting, you are requested to complete and return the Proxy Form in accordance with the instructions printed on it, to the Company's registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by 11:00 a.m. on 29 January 2016 (being at least 48 hours before the time for holding the General Meeting or any adjourned meetings thereof and taking no account of any part of a day that is a public holiday (including a Sunday)). Completion and delivery of a Proxy Form will not preclude you from attending and voting in person at the General Meeting or at any adjourned meetings thereof should you so wish.

Please note that tea and coffee will be served after the completion of the General Meeting.

You are reminded not to take items such as large bags, cameras, audio recording equipment or video recorders to the General Meeting. In order to provide you with a comfortable and a safe environment, you may have your bags searched and will be requested to leave all such items at the entrance of the General Meeting venue before entering.

7 January 2016

EXPECTED TIMETABLE

Latest time for lodging transfer documents (accompanied by Share certificates) in order to be entitled to attend and vote at the General Meeting 4:30 p.m. on 27 January 2016

Closure of the register of members of the Company for determination of entitlements to attend and vote at the General Meeting 9:00 a.m. on 28 January 2016
until 4:30 p.m. on 1 February 2016

Latest time for lodging Proxy Forms for the General Meeting 11:00 a.m. on 29 January 2016

Trading halt in the Shares 1 February 2016

General Meeting 1 February 2016

Announcement of the results of the General Meeting 1 February 2016

Resumption of trading of the Shares 2 February 2016

Payment of First Special Dividend expected in second half of 2016

Payment of Second Special Dividend expected in second half of 2017

Back Stop Date for the XRL Agreement to become unconditional and fully effective 30 September 2016
(or, if the date of any notice to terminate EA2 that may be served by the Company on Government under EA2 is earlier than 30 September 2016, the date of such notice)

The Board will determine the Book Closure Dates, the Record Dates and the Dividend Payment Dates and the Company will announce such dates in due course if the XRL Agreement becomes unconditional and fully effective.

Shareholders should note that the dates and times specified in the above timetable are indicative only and subject to change depending on, among other things, the results of the General Meeting and the date of Completion. Further announcement(s) will be made in the event that there is any change to the above timetable.

SUMMARY

This summary aims to give you an overview of the XRL Arrangements, the reasons for and benefits of the XRL Arrangements and certain other information which is contained in this Circular. Because this is a summary, it does not contain all the information which is important to Shareholders. Shareholders should read the whole document before deciding how to vote with respect to the Resolution.

THE XRL ARRANGEMENTS

On 30 November 2015, the Company announced that it had entered into the XRL Agreement with Government relating to the further funding and completion of the Express Rail Link project. The XRL Agreement contains an integrated package of terms and provides that:

- Government will bear and finance the project cost up to HK\$84.42 billion;
- if the project cost exceeds HK\$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;
- the Company will pay a special dividend of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share, in cash in each tranche);
- certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link, including an increase in the project management fee payable to the Company to HK\$6.34 billion;
- Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the current cost overrun (if any); and
- the XRL Agreement is subject to the obtaining of approval of the Company's independent shareholders and the obtaining of approval of the Legislative Council for Government's additional funding obligations, within the agreed timeframe.

CURRENT PROGRESS OF THE EXPRESS RAIL LINK PROJECT AND REVISED COST ESTIMATE

As at 30 November 2015, tunnel excavation was 99.9% complete (with excavation fully completed on 12 December 2015), the West Kowloon Terminus was 63.9% complete and overall, 75.4% of the works had been completed. Based on the Company's own review of the Revised Programme and the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project and having taken account of the views of independent experts, the Company does not currently believe there is any need to adjust further the revised programme or the revised cost estimate.

To enhance project delivery in a more transparent and timely manner, various measures were recommended in 2014 by the independent board committee of the Company's board of directors which was established in April 2014 in connection with the Express Rail Link project. Key recommendations of that committee, together with other proposed enhancements by the Company, have been implemented, including: strengthening the control of the project cost by the Company's Executive Committee controlling contingency monies; enhancing the monitoring and reporting systems on project progress and cost; and establishing the Capital Works Committee to oversee large capital projects, including the Express Rail Link project.

SUMMARY

REASONS FOR AND BENEFITS OF THE XRL AGREEMENT

The Board considers the XRL Agreement and the XRL Arrangements to be fair and reasonable and in the interests of the Company and its shareholders as a whole. The Board recommends the independent shareholders to vote in favour of the resolution at the General Meeting for the following reasons:

1. The XRL Agreement provides a pragmatic and viable solution to take forward and complete the Express Rail Link project, which is an important project for the Company and Hong Kong.

- The completion of the Express Rail Link project 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 of China and overseas. As project manager, the Company has every interest in the successful delivery of the project.
- The Company entered into the entrustment arrangements for the project on the understanding that it would be invited by Government to operate the Express Rail Link under the concession approach, following the completion of the project.
- Resolution of the arrangements for the Express Rail Link project is expected to preserve and enhance the Company's relationship with its various stakeholders, its reputation and its position for future growth in and outside of Hong Kong.
- The Express Rail Link is also important to Hong Kong, as it is expected to bring direct benefits in terms of time savings and enhanced ease of travel. It is also expected to enhance Hong Kong's status as a gateway to the Mainland of China, bringing benefits in terms of fostering trade, professional services and other economic activities for 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.
- If the approval of the Company's independent shareholders and of the Legislative Council are obtained as envisaged in the XRL Agreement, there will be a clear roadmap for completion of the project.

2. The proposed special dividend provides a sizable one-off return to all shareholders without affecting the Company's ability to continue its progressive regular dividend policy.

Under the XRL Agreement, the Company will pay a special dividend of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share, in cash in each tranche). This represents:

- approximately 4.2 times the total dividend of HK\$1.05 per share paid by the Company for 2014;

SUMMARY

- approximately 15.4% of the book equity of the Group of HK\$167.36 billion (as at 30 June 2015); and
- a total special dividend in aggregate of approximately HK\$25.76 billion (calculated based on the number of shares outstanding as at 31 October 2015) with approximately HK\$19.51 billion to be paid to the Hong Kong Government's Financial Secretary Incorporated and approximately HK\$6.25 billion to be paid to the Company's other shareholders.

This represents a sizable return to shareholders.

The payment of the special dividend will not affect the Company's intention to continue its progressive regular dividend policy (subject to its financial performance, amongst other factors).

3. Opportunity to improve capital structure while preserving financial flexibility.

The Company intends to finance the cash payment of the special dividend through additional borrowings. This provides the Company with an opportunity to improve its capital structure and improve its capital efficiency (as more particularly described in section 4E in the Letter from the Board) with limited impact on its financial flexibility. For illustrative purposes, if the special dividend had been paid and additional borrowings drawn as at 31 December 2013, the Group's return on average equity attributable to shareholders arising from underlying businesses for the year ended 31 December 2014 would have increased from 7.3% to 8.2%. Given the Company's strong balance sheet, despite an increase in its debt to finance the special dividend, the Company believes its debt and leverage ratios will remain at manageable levels. The Company intends to continue its capital expenditure and long term growth plans in Hong Kong, the Mainland of China and overseas.

Following the Company's announcement regarding the XRL Agreement on 30 November 2015, credit rating agencies, Standard & Poor's Ratings Services confirmed that it expects the Company's current credit rating of AAA/Stable/A-1+ will not be immediately affected by the XRL Agreement; Moody's Investors Service stated that while the XRL Agreement is credit negative, there is no immediate impact on the Company's current credit rating of Aa1 and its stable ratings outlook; and Rating and Investment Information, Inc. confirmed that there is no need to change the Company's current credit rating of AA+.

IFA RECOMMENDATION AND ADVICE

The IFA, Anglo Chinese Corporate Finance, Limited, considers that the terms of the XRL Agreement and the XRL Arrangements are fair and reasonable and in the interests of the Company and its shareholders (including independent shareholders) as a whole. Accordingly, the IFA advises the independent shareholders to vote in favour of the resolution.

SUMMARY

IBC ADVICE

Having taken into account the recommendations of the IFA, the IBC considers the terms of the XRL Agreement and the XRL Arrangements to be fair and reasonable and in the interests of the Company and the shareholders (including the independent shareholders) as a whole and advises the independent shareholders to vote in favour of the resolution.

CAUTIONARY NOTE

As completion of the XRL Agreement is subject to the obtaining of approval of the Company's independent shareholders and the obtaining of approval of the Legislative Council for Government's additional funding obligations, within the agreed timeframe, the arrangements contained in the XRL Agreement, including the payment of the special dividend, may or may not be implemented. Shareholders and potential investors should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to any aspect of this Circular, the General Meeting, the Proxy Form or as to the action they should take, should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

QUESTIONS AND ANSWERS

1. Why am I being sent this document?

- The purpose of this document is to provide you with information regarding the XRL Agreement and the XRL Arrangements and to give you notice of the General Meeting.

2. Why is there going to be a General Meeting?

- The XRL Agreement is a notifiable transaction and a connected transaction for the Company under the Listing Rules and will be subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

3. Can I vote at the General Meeting on the XRL Arrangements?

- The FSI, Government, their Close Associates and Associates and the Exchange Fund have a material interest in the XRL Agreement and the XRL Arrangements, and are required to abstain from voting at the General Meeting.
- All other registered Shareholders of the Company are entitled to vote at the General Meeting.

4. Do I need to attend and vote at the General Meeting?

- Although you are not required to attend the General Meeting, you are strongly urged to vote at the General Meeting either by attending or by completing and returning a Proxy Form before 11:00 a.m. on 29 January 2016.
- Completion and return of a Proxy Form will not preclude you from attending and voting in person at the General Meeting should you so wish.

5. What is the location, date and time of the General Meeting?

- The General Meeting will be held on 1 February 2016 at 11:00 a.m. at Rotunda 3 (6/F) Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Hong Kong.

6. How much Special Dividend will I receive and when will I receive the Special Dividend?

- The Company will pay the Special Dividend of HK\$4.40 in aggregate per share in cash in two equal tranches.
- It is expected that the first tranche will be paid in cash in the second half of 2016 and the second tranche will be paid in cash in the second half of 2017.

QUESTIONS AND ANSWERS

- The Special Dividend will be paid by the Company only if the approval of the Independent Shareholders and the approval of the Legislative Council (for Government to spend additional money on the Express Rail Link Project) are both obtained before the Back Stop Date. If either of these approvals is not obtained, the Company will not pay any Special Dividend.
- No scrip alternative for the Special Dividend is available.
- In due course, the Board will determine the Book Closure Dates, the Record Dates and the Dividend Payment Dates and the Company will announce the relevant dates in due course.

7. If I sell my Shares before the Record Dates, will I still receive the Special Dividend?

- There will be two Record Dates to determine entitlements to the Special Dividend. The first Record Date will relate to the first tranche of the Special Dividend and the second Record Date will relate to the second tranche of the Special Dividend. The Board will determine the Record Dates and the Company will announce such dates in due course if the XRL Agreement becomes unconditional and fully effective.
- If you sell all of your Shares before the first Record Date (which relates to the first tranche of the Special Dividend), you will not receive any of the Special Dividend.
- If you sell all of your Shares after the first Record Date (which relates to the first tranche of the Special Dividend) but before the second Record Date (which relates to the second tranche of the Special Dividend), you will receive the first tranche of the Special Dividend but not the second tranche of the Special Dividend.
- If you continue to hold all of your Shares up to and including the second Record Date, you will receive both the first and second tranches of the Special Dividend.

8. I hold my Shares in the Company through CCASS. What should I do?

- You should contact your broker, custodian, nominee or other relevant person who is, or has in turn, deposited the Shares with, a CCASS participant regarding your voting instructions to be given to such person; or
- arrange for your Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the General Meeting.

9. What if I still have questions?

- If you have questions concerning administrative matters, such as dates, documentation and procedures relating to the General Meeting, please call the Company's registrar, Computershare Hong Kong Investor Services Limited, on +852 2862 8633 between 9:00 a.m. and 6:00 p.m. on Mondays to Fridays, excluding Hong Kong public holidays.

QUESTIONS AND ANSWERS

- The hotline cannot and will not provide advice on the merits of the XRL Arrangements or the XRL Agreement or give financial or legal advice.
- **If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.**

IMPORTANT NOTICE AND ACTIONS TO BE TAKEN

EXERCISE YOUR RIGHT TO VOTE

If you are a Shareholder or a Beneficial Owner, you are strongly urged to exercise your right to vote or to give instructions to the relevant Registered Owner to vote in person or by proxy at the General Meeting. If you keep any Shares in a share lending programme, you are urged to recall any outstanding Shares on loan to avoid market participants using borrowed stock to vote.

Actions to be taken by Shareholders

A Proxy Form for use at the General Meeting is enclosed with each copy of this Circular that is sent to the Registered Owners.

Whether or not you are able to attend the General Meeting, you are requested to complete and return the Proxy Form in accordance with the instructions printed on it, to the Company's registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by 11:00 a.m. on 29 January 2016 (being at least 48 hours before the time for holding the General Meeting or any adjourned meetings thereof and taking no account of any part of a day that is a public holiday (including a Sunday)). Completion and return of a Proxy Form will not preclude you from attending and voting in person at the General Meeting or at any adjourned meetings thereof should you so wish.

If you do not appoint a proxy and you do not attend and vote at the General Meeting, you will still be bound by the outcome of the General Meeting. You are therefore strongly urged to vote at the General Meeting in person or by proxy.

After the General Meeting, the Company will announce the results of the General Meeting in accordance with the Listing Rules.

Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the General Meeting.

If you are a Beneficial Owner who wishes to attend the General Meeting personally, you should:

- contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the General Meeting and, for such purpose, the Registered Owner may appoint you as his/her/its proxy; or

IMPORTANT NOTICE AND ACTIONS TO BE TAKEN

- arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name.

Instructions to and/or arrangements with the Registered Owner should be given or made in advance of the relevant latest time for the returning of Proxy Forms in order to provide the Registered Owner with sufficient time to complete his/her/its Proxy Forms accurately and to submit them by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the returning of Proxy Forms, such Beneficial Owner should comply with the requirements of such Registered Owner.

Actions to be taken by Beneficial Owners whose Shares are deposited in CCASS

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you should, unless you are admitted to participate in CCASS as an Investor Participant:

- contact your broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons; or
- arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote (in person or by proxy) at the General Meeting.

The procedure for voting by Investor Participants and Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “Operating Guide for Investor Participants”, the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

NOTICE TO OVERSEAS SHAREHOLDERS

Overseas Shareholders and Beneficial Owners residing in jurisdictions other than Hong Kong should inform themselves about and observe all legal and regulatory requirements applicable to them. It is the responsibility of the Shareholders and the Beneficial Owners to satisfy themselves as to the full observance of the laws of the relevant jurisdictions applicable to them in connection with the XRL Arrangements and the XRL Agreement, obtaining any governmental, exchange control or other consents which may be required, and compliance with other necessary formalities and the payment of taxes due in such jurisdictions.

Shareholders and Beneficial Owners should consult their professional advisers if they are in any doubt as to the potential applicability of, or consequences under, any provision of law or regulation or judicial or regulatory decisions or interpretations in any jurisdictions, territory or locality therein or thereof.

IMPORTANT NOTICE AND ACTIONS TO BE TAKEN

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

The performance and results of operations of the Group contained in this Circular are historical in nature and past performance is no indication of the future results of the Group. This Circular contains forward-looking statements. The words “believe”, “intend”, “is confident”, “expect”, “anticipate”, “project”, “estimate”, “predict” and similar expressions identify forward-looking statements. These forward-looking statements are not facts. Rather, the forward-looking statements are based on the current beliefs, intentions, assumptions, expectations, anticipations, projections, estimates and predictions of the Board and/or the IBC of the Company (or, as the case may be, and other person or persons to which they apply).

These forward-looking statements may include statements relating to revenues and earnings. The Board and/or the IBC believe that the expectations, estimates and projections reflected in these forward-looking statements are reasonable. However, these statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the control of the Company and are difficult to predict. Consequently, actual results could differ materially from the information contained in any such forward-looking statements.

Undue reliance should not be placed on forward-looking statements, which reflect the views of the relevant person or persons as at the Latest Practicable Date only. Subject to any requirements of the Listing Rules and the SFO, the Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the Latest Practicable Date.

CAUTIONARY NOTE

As completion of the XRL Agreement is subject to the obtaining of Independent Shareholder Approval and LegCo Approval for Government’s additional funding obligations, within the agreed timeframe, the arrangements contained in the XRL Agreement, including the payment of the Special Dividend, may or may not be implemented. Shareholders and potential investors should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to any aspect of this Circular, the General Meeting, the Proxy Form or as to the action they should take, should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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DEFINITIONS

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

“2014 XRL Committee”	means the independent board committee established by the Board in April 2014 in connection with the Express Rail Link Project;
“Arbitrator”	means the arbitral panel appointed, in accordance with EA2, for the purposes of the Cost Overrun Arbitration (if any);
“Associate”	has the meaning given to that term in the Listing Rules;
“Back Stop Date”	means the earlier of (i) the date of a notice to terminate EA2 that may be served by the Company on Government under EA2; and (ii) 30 September 2016;
“Beneficial Owner”	means any beneficial owner of Shares whose Shares are registered in the name of a Registered Owner;
“Board”	means the board of directors of the Company;
“Book Closure Dates”	means the two sets of dates on which the Register will be closed for determining the entitlements of the Shareholders to each of the two tranches of the Special Dividend;
“Business Days”	means a day (excluding a Saturday or Sunday or other public holiday) on which banks in Hong Kong are generally open for business;
“CCASS”	means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;
“Circular”	means this circular;
“Close Associate”	has the meaning given to that term in the Listing Rules;
“Commissioner”	means the Commissioner for Transport;
“Companies Ordinance”	means the Companies Ordinance (Cap. 622 of the Laws of Hong Kong);
“Company”	means MTR Corporation Limited (and, where the context requires, includes its subsidiaries);

DEFINITIONS

“Completion”	means the date on which the XRL Agreement and the XRL Arrangements become fully unconditional and effective in accordance with the XRL Agreement following the satisfaction of the conditions set out in the XRL Agreement as contemplated in Section 7 of Appendix II;
“Cost Overrun”	means the aggregate of the Current Cost Overrun and Further Cost Overrun;
“Cost Overrun Arbitration”	means an arbitration (if any) commenced in accordance with EA2 to determine the Company’s liability (if any) for the Current Cost Overrun under EA1 and EA2;
“Current Cost Overrun”	means that portion of the Entrustment Cost (up to a maximum of HK\$84.42 billion) that exceeds the Project Control Total;
“Deed Poll”	means the deed poll executed by Government on 26 January 2010;
“Director”	means a member of the Board or a member of the Executive Directorate of the Company;
“Dividend Payment Dates”	means the dates on which the First Special Dividend and the Second Special Dividend will be paid to Shareholders whose names are registered on the Register on the relevant Record Date;
“Dollars” or “HK\$”	denotes the lawful currency of Hong Kong;
“EA1”	means the preliminary entrustment agreement for the design of, and site investigation and procurement activities in relation to the Express Rail Link between Government and the Company dated 24 November 2008;
“EA2”	means the entrustment agreement for the construction and commissioning of the Express Rail Link between Government and the Company dated 26 January 2010;
“Entrustment Activities”	has the meaning given to that term in EA2;
“Entrustment Cost”	means the total cost of the Entrustment Activities under EA2;

DEFINITIONS

“Excess Liability”	means the amount of the Company’s liability (if any), for the Current Cost Overrun, determined by the Arbitrator under the Cost Overrun Arbitration that exceeds the Liability Cap;
“Exchange Fund”	means the Hong Kong Special Administrative Region Government Exchange Fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong);
“Express Rail Link” and “XRL”	means the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link;
“Express Rail Link Project”	means the project of constructing and commissioning the Express Rail Link;
“First Special Dividend”	means the first tranche of the Special Dividend in the amount of HK\$2.20 per Share to be paid in cash;
“FSI”	means The Financial Secretary Incorporated (incorporated under the Financial Secretary Incorporation Ordinance (Cap.1015 of the Laws of Hong Kong));
“Further Cost Overrun”	means the amount of the Entrustment Cost (including Project Management Cost), if any, that exceeds HK\$84.42 billion;
“General Meeting”	means a general meeting of the Shareholders convened in accordance with the Listing Rules and the Companies Ordinance;
“Government”	means the Government of Hong Kong;
“Group”	means the Company and each of its subsidiaries;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee” and “IBC”	means the committee comprising independent non-executive Directors established pursuant to the Listing Rules in connection with the General Meeting;
“Independent Experts”	means: (i) Battersby Kingsfield Limited; and (ii) Dr. Kao, Tsung-chung and Professor Dr. Bent Flyvbjerg;

DEFINITIONS

“Independent Financial Adviser” and “IFA”	means Anglo Chinese Corporate Finance, Limited, an independent financial adviser appointed in accordance with the Listing Rules in connection with the General Meeting;
“Independent Shareholder Approval”	means the approval of the XRL Agreement and the XRL Arrangements given by the Independent Shareholders at a General Meeting;
“Independent Shareholders”	means Shareholders of the Company excluding the FSI, Government, any Close Associate or Associate of the FSI and/or Government and the Exchange Fund;
“Integrated MTR System”	means the MTR Railway and the KCR System, which are operated as a single combined system with effect from the rail merger described in the section “Information on the Business of the Company”;
“Interim Report”	means the Company’s interim financial report for the period ended 30 June 2015;
“Investor Participants”	means persons admitted to participate in CCASS as investor participants;
“KCRC”	means the Kowloon-Canton Railway Corporation;
“KCR Railway”	means the Kowloon-Canton Railway;
“KCR System”	means the KCR Railway, the Transit Service Area buses and the KCRC related businesses;
“Latest Practicable Date”	means 22 December 2015, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein;
“LegCo” and “Legislative Council”	means the Legislative Council of Hong Kong;
“LegCo Approval”	means the approval by LegCo (or the relevant committee(s) thereof) of the additional funding required for the Current Cost Overrun in order for Government to be able to perform its obligations under the XRL Agreement and the XRL Arrangements;
“Liability Cap”	means the limit on the Company’s liability contained in Clause 4.11 of EA2;
“Listed Securities”	means the Shares (stock code: 66) and the Company’s debt securities which are listed on the Stock Exchange (stock codes: 4541, 5958 and 6025);

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“MTR Ordinance”	means the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong), as amended from time to time (and where the context requires, as amended by the Rail Merger Ordinance);
“MTR Railway”	means the “Mass Transit Railway” as defined in the MTR Ordinance;
“Ngong Ping 360”	means the Ngong Ping cable car;
“Octopus”	means the contactless smart card ticketing system in Hong Kong known as “Octopus” (or any replacement for such system);
“Octopus Holdings”	means Octopus Holdings Limited;
“Operating Agreement”	means the Operating Agreement entered into between Government and the Company on 9 August 2007;
“Other CCASS Participants”	means persons admitted to participate in CCASS other than an Investor Participant;
“Panel Report”	means the Report of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link Independent Expert Panel dated December 2014 and published in January 2015;
“Party”	means Government or the Company (and “Parties” means both of them);
“Proceeding”	means any dispute, proceeding, suit or action;
“Project Control Total”	means HK\$65 billion;
“Project Management Cost”	means the amount payable by Government to the Company pursuant to EA2 (as amended by the XRL Agreement) and referred to therein as the “Project Management Cost” (as the same is increased in accordance with EA2, as contemplated in Section 8 of Appendix II entitled “XRL Agreement”);
“Proxy Form”	means the form of proxy issued by the Company for the purposes of the General Meeting and any adjournments thereof;

DEFINITIONS

“Rail Merger Ordinance”	means the Rail Merger Ordinance (Ordinance No. 11 of 2007);
“RDS 2014”	means the Railway Development Strategy 2014 issued by Government on 17 September 2014;
“Record Dates”	means the two dates to be fixed by the Board for determining the entitlements of the Shareholders to each of the two tranches of the Special Dividend;
“Register”	means the register of members kept by the Company in accordance with the Companies Ordinance;
“Registered Owner”	means, in respect of a Beneficial Owner, any nominee, trustee, depository or any other authorised custodian or third party whose name is entered in the register of members of the Company as the holder of the Shares in which the Beneficial Owner is beneficially interested;
“Resolution”	means the resolution to be voted on by the Independent Shareholders at the General Meeting contained in the “Notice of General Meeting” set out on pages N-1 to N-2 (inclusive) of this Circular;
“Revised Cost Estimate”	means the revised cost estimate of HK\$84.42 billion for the agreed scope of the Express Rail Link Project, which the Company has agreed with Government and which is described in the Section 1 of the Letter from the Board contained in this Circular entitled “INTRODUCTION AND BACKGROUND”;
“Revised Programme”	means the revised programme for the completion of the Express Rail Link Project which the Company reported to Government on 30 June 2015 which is described in Section 1 of the Letter from the Board contained in this Circular entitled “INTRODUCTION AND BACKGROUND”;
“Second Special Dividend”	means the second tranche of the Special Dividend in the amount of HK\$2.20 per Share to be paid in cash;
“Secretary”	means the Secretary for Transport and Housing;
“Service Concession Agreement”	means the Service Concession Agreement entered into by Government and the Company on 9 August 2007;

DEFINITIONS

“SFO”	means Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Share”	means an issued share in the share capital of the Company;
“Shareholder”	means the holder of a Share;
“Shareholding”	means the holding of a Share;
“Special Dividend”	means a special dividend in the aggregate amount of HK\$4.40 per Share to be paid in cash;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Third Party”	has the meaning given to that term in EA2;
“Third Party Contract”	has the meaning given to that term in EA2;
“Waiver”	means the waiver granted by the Stock Exchange to the Company from complying with the requirements of Chapter 14A of the Listing Rules (subject to certain conditions) whose terms were contained in announcements made by the Company on 13 January 2005 and 24 October 2005;
“XRL Agreement”	means the Deed of Agreement in relation to the Express Rail Link between Government and the Company dated 30 November 2015; and
“XRL Arrangements”	means all the arrangements in aggregate contained in the XRL Agreement which, together, form an integrated package of terms.

LETTER FROM THE BOARD



MTR CORPORATION LIMITED 香港鐵路有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 66)

The Board

Non-Executive Directors

Professor Frederick Ma Si-hang (*Chairman*)
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)
Permanent Secretary for Development (Works) (Hon Chi-keung)
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)

Independent Non-Executive Directors

Pamela Chan Wong Shui
Dr. Dorothy Chan Yuen Tak-fai
Vincent Cheng Hoi-chuen
Dr. Eddy Fong Ching
Edward Ho Sing-tin
James Kwan Yuk-choi
Lau Ping-cheung, Kaizer
Lucia Li Li Ka-lai
Alasdair George Morrison
Ng Leung-sing
Abraham Shek Lai-him
Benjamin Tang Kwok-bun
Dr. Allan Wong Chi-yun

Executive Director

Lincoln Leong Kwok-kuen (*Chief Executive Officer*)

The Executive Directorate

Lincoln Leong Kwok-kuen (*Chief Executive Officer*)
Morris Cheung Siu-wa
Jacob Kam Chak-pui
Stephen Law Cheuk-kin
Gillian Elizabeth Meller
Linda So Ka-pik
David Tang Chi-fai
Philco Wong Nai-keung
Jeny Yeung Mei-chun

*Registered Office
and Principal Office:*
MTR Headquarters
Building,
Telford Plaza,
Kowloon Bay,
Kowloon,
Hong Kong

7 January 2016

LETTER FROM THE BOARD

To the Shareholders and, for information only, holders of the Group's bonds and holders of share options and share incentive awards issued by the Company.

Dear Sir or Madam,

**HONG KONG SECTION OF THE GUANGZHOU -
SHENZHEN - HONG KONG EXPRESS RAIL LINK
(1) NOTIFIABLE TRANSACTION
(2) CONNECTED TRANSACTION AND
AMENDMENT OF CONTINUING CONNECTED TRANSACTION
(3) CONDITIONAL SPECIAL DIVIDEND
(4) NOTICE OF GENERAL MEETING**

1. INTRODUCTION AND BACKGROUND

Reference is made to the previous announcements of the Company regarding the Express Rail Link Project.

The 26-kilometre Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. In April 2008, the Chief Executive in Council decided that the Company should be asked to proceed with the further planning and design of the Express Rail Link on the understanding that the Company would be invited to undertake the operation of the Hong Kong section of the XRL under the concession approach. In November 2008, Government and the Company entered into EA1 for the design of and site investigation and procurement activities in relation to the XRL. Pursuant to EA1, Government is obligated to pay the Company for the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

In October 2009, Government decided that the Company should be asked to proceed with the construction and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the Express Rail Link under the concession approach. In January 2010, Government and the Company entered into EA2 for the construction, and commissioning of the XRL. Pursuant to EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and Government, as owner of XRL, is responsible for bearing and financing the full amount of the Entrustment Cost and for paying to the Company a Project Management Cost of HK\$4.59 billion in accordance with an agreed payment schedule. As at 30 June 2015 and up to the date of this Circular, the Company has received payments from Government in accordance with the originally agreed payment schedule.

LETTER FROM THE BOARD

Government has the right to claim against the Company if the Company breaches EA2 and, under EA2, to be indemnified by the Company in relation to losses suffered by Government as a result of any negligence of the Company in performing its obligations under EA2 or breach by the Company of EA2. Under EA2, the Company's total aggregate liability to Government arising out of or in connection with EA1 and EA2 (other than for death or personal injury) is subject to a cap equal to the Project Management Cost and other fees that the Company receives under EA2 and certain fees received by the Company under EA1.

In April 2014, the Company announced that the construction period for the Express Rail Link Project needed to be extended, with the target opening of the line for passenger service revised to 2017 from 2015. In July 2014, the Company provided to Government a revised project cost estimate of HK\$71.52 billion, inclusive of future insurance and project management costs.

In April 2014, the Board established the 2014 XRL Committee which issued two reports in relation to the Express Rail Link Project in July and October 2014, respectively. The first report included the 2014 XRL Committee's findings, conclusions and recommendations in its review of the background of and reasons for the revised schedule for the Express Rail Link Project. The second report advised on the manner in which the Company could deliver the Express Rail Link Project in a more transparent and timely manner and in accordance with the Company's responsibilities under EA1 and EA2.

Government separately engaged an independent expert panel (headed by Justice Hartmann, a Non-Permanent Judge of the Court of Final Appeal in Hong Kong) to review the delay relating to the Express Rail Link Project. The Panel Report was published in January 2015. The Panel Report put forward several recommendations aimed at improving the systems, processes and practices for implementing and monitoring the Hong Kong section of the Express Rail Link Project as well as future new railway projects.

In June 2015, the Company completed its review of the project cost estimate and the revised timetable for the construction of the Express Rail Link and, on 30 June 2015, the Company:

- (i) reported to Government that the Company estimates:
 - (a) the Express Rail Link being completed in the third quarter of 2018 (including programme contingency of six months); and
 - (b) the total project cost to be HK\$85.3 billion (including contingency) (an increase from the previous estimate of HK\$71.52 billion);
- (ii) advised Government that these revised estimates are based on a number of assumptions including timely funding arrangements and require the cooperation of various parties and certain approvals from Government; and

LETTER FROM THE BOARD

- (iii) announced that it had reported the above to Government and that the Board had authorised the Chairman and the Chief Executive Officer of the Company to engage with Government with a view to enabling the Express Rail Link to commence operations in accordance with the Revised Programme.

On 30 June 2015, in addition to formally notifying Government that the estimated project cost would exceed the Project Control Total of HK\$65 billion (in accordance with EA2), the Company also notified Government that the date on which the Company estimates that the aggregate of the project cost paid or payable by Government would exceed the Project Control Total would be mid-2016. Under EA2, having received such notification from the Company, Government is required to take all reasonable steps to obtain all necessary approvals for the funding of the Cost Overrun or propose an alternative solution.

Since 30 June 2015, Government and its consultants have been reviewing and discussing with the Company the revised estimated project cost and construction programme and the Parties are now in agreement that the estimated project cost for the agreed scope of the project be reduced to the Revised Cost Estimate of HK\$84.42 billion, on the basis of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, including:

- (i) a reduction of HK\$544 million resulting from confirmation that 5 out of 15 tracks which are not required in the initial period of operations will only be fitted-out at a later date and, therefore, the costs relating to such fit-out have been deducted;
- (ii) a net reduction of HK\$150 million, as a result of a reduction in the project cost contingency and adjustments to a small number of other items; and
- (iii) a reduction of HK\$186 million to the additional Project Management Cost so that the total Project Management Cost payable to the Company under EA2 is now agreed at HK\$6.34 billion (the previous agreed Project Management Cost under EA2 was HK\$4.59 billion).

As at 30 November 2015, tunnel excavation was 99.9% complete (tunnel excavation was fully completed on 12 December 2015), the West Kowloon Terminus was 63.9% complete and overall, 75.4% of the works had been completed. The Company appointed Battersby Kingsfield Limited, independent experts, to review the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project. The Company also appointed Dr. Kao, Tsung-chung and Professor Dr. Bent Flyvbjerg (who were independent experts to the 2014 XRL Committee) to review the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project. Based on its own review of the Revised Programme and the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project and having taken account of the views of the Independent Experts, the Company does not currently believe there is any need to revise further the Revised Programme or the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project.

LETTER FROM THE BOARD

On 30 November 2015, Government and the Company entered into the XRL Agreement following negotiations between the Company and Government relating to the further funding and completion of the Express Rail Link Project.

The Company and Government both remain aligned and committed to the successful delivery of the Express Rail Link Project with a target to enable commercial operations on the Express Rail Link to commence in the third quarter of 2018.

2. THE XRL AGREEMENT

On 30 November 2015, Government and the Company entered into the XRL Agreement relating to the further funding and completion of the Express Rail Link Project. The XRL Agreement contains an integrated package of terms and provides that:

- (i) Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion);
- (ii) the Company will, if the project cost exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts, as more particularly described in section 2 of Appendix II);
- (iii) the Company will pay a Special Dividend of HK\$4.40 in aggregate per Share in two equal tranches (of HK\$2.20 per Share, in cash in each tranche) amounting in total to a combined payment of approximately HK\$25.76 billion calculated based on the number of Shares as at 31 October 2015. Calculated based on Shareholdings in the Company as at 31 October 2015, approximately HK\$19.51 billion will be paid to the FSI and approximately HK\$6.25 billion will be paid to the Company's other Shareholders. As the number of issued Shares and the holdings of Shares by Government and other Shareholders will change from time to time, the actual amount of the Special Dividend and the entitlements thereto of Government and the Company's other Shareholders will be different from the amounts stated above. The first tranche will be paid in cash within a reasonable period after Completion (payment is expected to be in the second half of 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is expected to be in the second half of 2017), assuming the conditions applicable to the XRL Agreement are satisfied. There will be no scrip alternative. In due course, the Board will determine the Book Closure Dates, the Record Dates and the Dividend Payment Dates and the Company will announce such relevant dates, if the XRL Agreement becomes unconditional and fully effective. The Company will also announce the relevant contingency arrangements if there is a typhoon or black rainstorm;

LETTER FROM THE BOARD

- (iv) Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under EA1 and EA2 (including any question Government may have regarding the validity of the Liability Cap). EA1 and EA2 contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under EA2, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under EA2 and certain fees received by the Company under EA1. Accordingly, the Liability Cap is currently up to HK\$4.94 billion and will increase to up to HK\$6.69 billion when the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under EA2 of HK\$6.34 billion plus the additional fees referred to above). If the Arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under EA1 and EA2 for the Current Cost Overrun would exceed the Liability Cap, the Company shall:
- (a) bear such amount as is awarded to Government up to the Liability Cap;
 - (b) seek the approval of its Independent Shareholders, at another General Meeting (at which the FSI, Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the Excess Liability; and
 - (c) if the approval of the Independent Shareholders referred to in (b) above is obtained, pay the Excess Liability to Government. If such approval is not obtained, the Company will not make such payment to Government;
- (v) certain amendments will be made to EA2 to reflect the arrangements contained in the XRL Agreement, including an increase in the Project Management Cost payable to the Company under EA2 to an aggregate of HK\$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under EA2 in relation to the Express Rail Link Project) and to reflect the Revised Programme; and
- (vi) the arrangements under the XRL Agreement (including the payment of the proposed Special Dividend) are conditional on:
- (a) Independent Shareholder Approval (which will be sought at the General Meeting to be convened on 1 February 2016); and
 - (b) LegCo Approval in respect of Government's additional funding obligations, being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of EA2 is commenced prior to that date) and will become effective if such conditions are satisfied.

Upon these conditions being satisfied, the Company will make further announcements.

If any of the above conditions is not satisfied prior to the Back Stop Date (being 30 September 2016 or such earlier date as is discussed in section 2(vi) above), the XRL Agreement will lapse and the Special Dividend will not be paid.

LETTER FROM THE BOARD

As Completion is subject to the obtaining of Independent Shareholder Approval and LegCo Approval within the agreed timeframe, the arrangements contained in the XRL Agreement, including payment of the Special Dividend, may or may not be implemented.

Although the XRL Agreement and the XRL Arrangements are specifically tailored to address the particular circumstances of the Express Rail Link Project and the XRL Agreement provides that they shall not serve as a precedent or create any expectations for the manner in which any other project will be addressed, there can be no assurance that this will ultimately be the case and it should be noted that the Company is involved in other railway projects in Hong Kong whose respective completions will occur after their original estimated completion dates and at costs which will exceed their original estimated costs.

Further details relating to the XRL Agreement are contained in Appendix II.

3. REASONS FOR AND BENEFITS OF THE XRL AGREEMENT

A. The XRL Agreement provides a pragmatic and viable solution to take forward and complete the Express Rail Link Project, which is an important project for the Company and Hong Kong

The completion of the Express Rail Link Project 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 of China and overseas. The Company entered into EA2 on the understanding that it would be invited by Government to operate the Express Rail Link under the concession approach, following the completion of the project. As project manager of the project, the Company has every interest in the successful delivery of the project in accordance with EA2.

Resolution of the arrangements for the Express Rail Link project is expected to preserve and enhance the Company's relationship with its various stakeholders, its reputation and its position for future growth in and outside of Hong Kong.

The Express Rail Link is also important to Hong Kong, as it is expected to bring direct benefits in terms of time savings and enhanced ease of travel. It is also expected to enhance Hong Kong's status as a gateway to the Mainland of China, 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 it will be in the long term interests of the Company and Hong Kong for the Company to continue working with Government to complete the Express Rail Link Project.

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Under the XRL Agreement, it has been agreed that Government will bear and finance up to a further HK\$19.42 billion of the project cost (in addition to the originally estimated amount of HK\$65 billion) and, if the project cost exceeds HK\$84.42 billion, the Company will bear and finance such excess (if any) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts). Taking account of its own work and the views of the Independent Experts (as discussed in section 1 above), the Company does not currently believe there is any need to revise further the Revised Programme or the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project.

In 2014, the 2014 XRL Committee recommended various measures to enhance project delivery in a more transparent and timely manner. Key recommendations, in particular those in relation to improving programme and cost controls, have been implemented. In addition, further enhancements have also been undertaken by the Company. Together these included:

- (i) project cost control has been strengthened by the Company's Executive Committee controlling contingency monies. In addition, the XRL Executive Cost Control Committee, chaired by the Chief Executive Officer of the Company, has been established, to complement the existing Project Control Group, and to strengthen the overall control of the expenditure of the project;
- (ii) monitoring and reporting systems relating to project progress and cost have been enhanced. This includes review and regular reporting to the Company's Executive Committee and the Board on the likelihood of achieving the target progress and budget. Project progress is also reported against a clear set of key performance indicators and milestones;
- (iii) the establishment of the Capital Works Committee, comprising non-executive Directors and chaired by an independent non-executive Director, to oversee large capital projects (including the Express Rail Link Project). This committee reviews the progress and budget of the Express Rail Link Project at an interval of approximately two months and reports on the status of the project to the Board; and
- (iv) the Company's communications strategy for the Express Rail Link Project has been reviewed and enhanced to keep stakeholders informed of the project status in a timely manner.

These procedures and steps have been adopted to reduce the potential of the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project being exceeded.

LETTER FROM THE BOARD

However, it should be noted that there can be no assurance that the cost of completing the Express Rail Link Project will not exceed HK\$84.42 billion, particularly if unforeseen events arise before the project is completed. In such case, under the terms of the XRL Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds HK\$84.42 billion (if any) except for certain agreed excluded costs (as more particularly described in section 2 of Appendix II). It should be noted that there is no contractual or other limit on the Company's responsibility in this regard.

Furthermore, there can be no certainty as to whether Government will exercise its right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under EA1 and EA2 (as more particularly described in section 2 (iv) above) and, if it does, what the outcome of any such arbitration may be.

The Company believes the XRL Agreement provides a pragmatic and viable solution to take forward and complete the Express Rail Link Project. If Independent Shareholder Approval and LegCo Approval are obtained in accordance with the XRL Agreement, there will be a clear roadmap for completion of the project.

After taking into account the reasons and benefits described above for entering into the XRL Agreement and the terms of the XRL Agreement as a whole, the Board considers the terms of the XRL Agreement and the XRL Arrangements to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

B. The proposed Special Dividend provides a sizable one-off return to Shareholders without affecting the Company's ability to continue its progressive regular dividend policy

Details relating to the proposed Special Dividend

The Special Dividend of HK\$4.40 in aggregate per Share:

- (i) represents approximately 4.2 times the total dividend of HK\$1.05 per Share paid by the Company for 2014;
- (ii) represents approximately 15.4% of the book equity of the Group of HK\$167.36 billion (as at 30 June 2015);
- (iii) represents a total Special Dividend in aggregate of approximately HK\$25.76 billion^{1, 2} calculated based on the number of Shares as at 31 October 2015² with approximately HK\$19.51 billion to be paid to the FSI and approximately HK\$6.25 billion to be paid to the Company's other Shareholders; and
- (iv) is proposed to be paid to all Shareholders in two tranches. It is expected that the first tranche will be paid in cash in the second half of 2016 and the second tranche will be paid in cash in the second half of 2017, assuming the conditions applicable to the XRL Agreement are satisfied. There will be no scrip alternative.

LETTER FROM THE BOARD

The proposed Special Dividend represents a sizable return to shareholders. In addition, the Company intends to continue its progressive regular dividend policy (subject to, among other things, the financial performance and trading results of the Company and general Hong Kong and global economic conditions).

The entitlements of the FSI (on trust for Government) and the other Shareholders to the Special Dividend are set out in the table below.

	Number of Shares held as at 31 October 2015	Percentage Shareholding as at 31 October 2015	Special Dividend Entitlement^{1,2,3} (HK\$ billion)
FSI (on trust for Government) ⁴	4,434,552,207	75.7%	19.51
Other Shareholders	1,420,372,029	24.3%	6.25
Total	5,854,924,236	100.0%	25.76

Notes:

1. Being the total aggregate of the proposed two tranches of Special Dividend.
2. As the number of issued Shares and the Shareholdings of the FSI (on trust for Government) and the Company's other Shareholders will change from time to time, the actual amount of the Special Dividend and the entitlements thereto of the FSI (on trust for Government) and the Company's other Shareholders will be different from the amounts stated above.
3. Calculated based on Shareholdings as at 31 October 2015.
4. The FSI holds these Shares on trust for Government. This Shareholding does not include the Shareholding of the Exchange Fund nor the Shareholding of any Close Associate or Associate of the FSI or Government.

The Company's proposed financing plan for payment of the Special Dividend

The Company has sufficient distributable reserves to pay the total amount of the Special Dividend and, having considered its capital structure including its gearing ratio, intends to finance the cash payment of the Special Dividend to all its Shareholders through additional borrowings. The Company is confident it will be able to borrow the required amount on attractive funding terms. The Special Dividend provides an opportunity to improve the Company's capital structure (as illustrated by the Group's improved return-on-equity, as more particularly described in section 4E below) through the return of a portion of distributable reserves to Shareholders by payment of the Special Dividend which will be financed by debt.

LETTER FROM THE BOARD

Following the Company's announcement regarding the XRL Agreement on 30 November 2015, credit rating agencies have confirmed that the Company's credit ratings remain unchanged. Details are as follows:

- (i) Standard & Poor's Ratings Services confirmed that it expects the Company's current credit rating of AAA/Stable/A-1+ will not be immediately affected by the XRL Agreement, based on its current expectation that the Company will continue to receive "almost certain" extraordinary support from Government in the event of financial distress although it stated that the significant debt-funded Special Dividend could result in a weakening of the Company's standalone credit profile;
- (ii) Moody's Investors Service stated that while the XRL Agreement is credit negative, there is no immediate impact on the Company's current credit rating of Aa1 and its stable ratings outlook, noting the Company's credit profile remains supported by its solid business fundamentals, strong access to the capital markets and the expectation of the very high level of support the Company will receive from Government in times of need; and
- (iii) Rating and Investment Information, Inc. confirmed that there is no need to change the Company's current credit rating of AA+, noting the Company has a very strong financial base for a railway company.

The Company intends to continue to:

- (i) maintain a strong balance sheet with adequate liquidity;
- (ii) preserve financial flexibility;
- (iii) pursue its capital expenditure and long term growth plans in Hong Kong, the Mainland of China and overseas;
- (iv) uphold its high levels of service performance in railway operations, including through continued investment in the existing Hong Kong rail network; and
- (v) preserve its positive long-standing relationship with Government.

Conditionality

The implementation of the XRL Arrangements (including the payment of the Special Dividend) is conditional on Independent Shareholder Approval and LegCo Approval (as described in section 2(vi) above) being obtained within the agreed timeframe.

Upon these conditions being satisfied, the Company will make further announcements.

If any of the above conditions is not satisfied prior to the Back Stop Date (being 30 September 2016 or such earlier date as is discussed in section 2(vi) above), the XRL Agreement will lapse and the Special Dividend will not be paid.

LETTER FROM THE BOARD

As Completion is subject to the obtaining of Independent Shareholder Approval and LegCo Approval, within the agreed timeframe, the arrangements contained in the XRL Agreement, including payment of the Special Dividend, may or may not be implemented.

Future dividend policy

Notwithstanding the proposed Special Dividend, subject to, among other things, the financial performance and trading results of the Company and general Hong Kong and global economic conditions, the Board intends to continue the Company's progressive regular dividend policy.

Taxation

The precise tax consequences for a Shareholder receiving the Special Dividend will depend upon the Shareholder's own individual circumstances. If you are in any doubt as to what to do, you should consult your professional advisers. Under Hong Kong law, no tax is withheld from dividends paid by the Company.

4. ILLUSTRATIVE AND PRO FORMA FINANCIAL INFORMATION RELATING TO THE XRL ARRANGEMENTS

This section 4 contains certain illustrative and pro forma financial information. More detailed illustrative and pro forma financial information is contained in Appendix III, "Financial Information of the Group".

A. Profit and loss

The Company intends to finance the cash payment of the Special Dividend to all its Shareholders through additional borrowings. Upon the drawdown of additional borrowings, the Company will incur incremental interest and finance charges related to such additional borrowings which will be charged to the profit and loss account.

B. Earnings per share

The Group's basic earnings per share if calculated based on profit attributable to equity Shareholders arising from underlying businesses for the year ended 31 December 2014 was HK\$1.99. For illustrative purposes only, if the payment of the Special Dividend of approximately HK\$25.76 billion (calculated based on the number of Shares as at 31 October 2015) and the drawdown of the additional borrowing of an equivalent amount by the Company both had been effective as at 31 December 2013 and the interest expense on additional borrowing had been calculated based on the Company's weighted average borrowing rate for the half year ended 30 June 2015, the Group's basic earnings per share if calculated based on profit attributable to equity Shareholders arising from underlying businesses for the year ended 31 December 2014 would have decreased to HK\$1.86.

LETTER FROM THE BOARD

C. Assets and liabilities

As at 30 June 2015 the Group's total assets amounted to HK\$238.04 billion and its total liabilities amounted to HK\$70.68 billion.

As the Company intends to finance the cash payment of the Special Dividend to all its Shareholders through additional borrowings, upon the conditions of the XRL Agreement being satisfied, the level of total liabilities of the Group will therefore increase by an amount equal to the additional borrowings drawn whilst total equity will reduce by an amount equal to the Special Dividend.

D. Debt and leverage ratios

As a result of the payment of the Special Dividend financed by debt, there will be an increase in the Group's total debt and net debt (after netting-off cash balances) as well as an increase in the Group's gross debt-to-equity ratio and net debt-to-equity ratio.

The Group's net debt-to-equity ratio¹ as at 30 June 2015 was 9.1%. For illustrative purposes only, if the payment of the Special Dividend of HK\$25.76 billion (calculated based on the number of Shares as at 31 October 2015) and the drawdown of the additional borrowing of an equivalent amount by the Company had both been effective as at 30 June 2015, the Group's net debt-to-equity ratio would have increased to 29%.

Overall, the Group believes its debt and leverage ratios will remain at manageable levels.

Note:

1. Net debt-to-equity ratio is defined as loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits as a percentage of total equity.

E. Shareholders' funds and return-on-equity

The Special Dividend of HK\$25.76 billion (calculated based on the number of Shares as at 31 October 2015) will reduce the Group's Shareholders' funds in an amount equal to the Special Dividend; hence, for illustrative purposes only, the Group's Shareholders' funds as at 30 June 2015 would have decreased from HK\$167.15 billion to HK\$141.39 billion if the Special Dividend had been effective on 30 June 2015.

The Group's return on average equity attributable to Shareholders arising from underlying businesses¹ for the year ended 31 December 2014 was 7.3%. For illustrative purposes only, if the payment of the Special Dividend of HK\$25.76 billion (calculated based on the number of Shares as at 31 October 2015) and the drawdown of the additional borrowing of an equivalent amount by the Company both had been effective as at 31 December 2013 and the interest expense on additional borrowing had been calculated based on the

LETTER FROM THE BOARD

Company's weighted average borrowing rate for the half year ended 30 June 2015, the Group's return on average equity attributable to Shareholders arising from underlying businesses for the year ended 31 December 2014 would have increased to 8.2%.

Note:

1. Return on average equity attributable to Shareholders arising from underlying businesses is defined as profit attributable to equity Shareholders arising from underlying businesses of the Company as a percentage of the average of the beginning and closing total equity attributable to equity Shareholders of the period.

F. Further Cost Overrun (being the portion of the project cost beyond HK\$84.42 billion, if any), potential arbitration and Project Management Cost

Any Further Cost Overrun (which amount (if any) except for certain agreed excluded costs (as more particularly described in section 2 of Appendix II) would have to be borne by the Company under the XRL Agreement) would be charged to the Company's accounts. Likewise, any liability of the Company determined in accordance with any arbitration referred to in section 2(iv) above (if any) would also be charged to the Company's accounts. If the increased Project Management Cost is insufficient to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the Express Rail Link Project, an amount in respect of such insufficiency would also be charged to the Company's accounts. However, as of the Latest Practicable Date, the Company has not made any provision in the Company's accounts in respect of:

- (i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the Revised Programme or the Revised Cost Estimate of HK\$84.42 billion;
- (ii) any possible liability for the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in section 2(iv) above), given that (a) the Company has not received any notification from Government of any claim by Government against the Company or of any referral by Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the Express Rail Link); (b) the Company has the benefit of the Liability Cap; and (c), as a result of the XRL Agreement, the Company will not make any payment to Government in excess of the Liability Cap pursuant to a determination of the Arbitrator without the approval of the Independent Shareholders; and
- (iii) any possible insufficiency of the Project Management Cost to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the Express Rail Link Project, given that the Company estimates that the Project Management Cost should be sufficient to cover such costs (based on current known circumstances),

and because the Company is not able to estimate reliably the financial effect on the Company, if any, arising from the matters described in (i), (ii) and (iii) above.

LETTER FROM THE BOARD

G. Working capital

The Board is of the opinion that, taking into account the internal resources and the unutilised financing facilities currently available to the Group and additional borrowings currently under discussion with various financial institutions, the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of this Circular, in the absence of unforeseen circumstances.

5. IMPLICATIONS UNDER THE LISTING RULES

Interpretation

In this section the terms “Associate”, “Close Associate”, “connected person”, “connected transaction” and “continuing connected transaction” have the meaning ascribed to them in the Listing Rules.

Notifiable Transaction

The XRL Agreement is a notifiable transaction for the Company under Chapter 14 of the Listing Rules and, among other things, will be subject to the reporting, announcement and shareholders’ approval requirements under the Listing Rules.

Amendment of Continuing Connected Transaction

Government is a substantial shareholder of the Company. The XRL Agreement is a connected transaction and will, upon Completion, amend EA2 which is a continuing connected transaction for the Company.

As disclosed in previous announcements by the Company (including the Company’s announcement dated 26 January 2010 regarding the execution of EA2), the Stock Exchange has granted the Waiver to the Company which, subject to certain conditions, exempts it from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government. Under the Waiver, among other things, the Company must make the XRL Agreement 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. Accordingly, each of the Secretary, the Commissioner, the Permanent Secretary for Development (Works) and Professor Chan Ka-keung, Ceajer (each of whom has a material interest in the XRL Agreement) did not attend the relevant part of or the entire (as the case may be) Board meeting at which the XRL Agreement was discussed and did not vote on the XRL Agreement.

Details of the XRL Agreement will be disclosed in the next annual report of the Company in accordance with Rule 14A.71 of the Listing Rules and the terms of the Waiver. Although the effect of the Waiver is that the XRL Agreement would not be subject to the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules, nevertheless the XRL Agreement, being treated as a notifiable transaction under Chapter 14 of the Listing Rules, will be subject to the independent shareholders’ approval requirement under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

In accordance with the terms of the Waiver, the Board has considered whether or not the XRL Agreement is on “normal commercial terms” and in the “ordinary and usual course of the business” of the Company (in each case, as that term is defined in the Listing Rules).

After taking into account the reasons and benefits described above for entering into the XRL Agreement and the terms of the XRL Agreement as a whole, the Board (including the independent non-executive Directors) considers that the terms of the XRL Agreement and the XRL Arrangements are on “normal commercial terms”, in the “ordinary and usual course of business” of the Company (in each case, as those terms are defined in the Listing Rules) and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Independent Board Committee

The Independent Board Committee, having considered, among other things, the reasons for, and the benefits of, the XRL Arrangements and having taken into account the advice of the Independent Financial Adviser in “Letter from the Independent Financial Adviser” (set out below), considers that the terms of the XRL Agreement and the XRL Arrangements are fair and reasonable, are in the interests of the Company and the Shareholders as a whole, are in the ordinary and usual course of the business (within the meaning of the Listing Rules) of the Company and are on normal commercial terms (within the meaning of the Listing Rules). Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the Resolution to be proposed at the General Meeting.

Independent Financial Adviser

Based on the factors and reasons contained in its “Letter from the Independent Financial Adviser” (set out below), the Independent Financial Adviser considers the terms of the XRL Agreement and the XRL Arrangements are fair and reasonable, are in the interests of the Company and Shareholders as a whole, are in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Company and are on normal commercial terms (within the meaning of the Listing Rules). Accordingly, the Independent Financial Adviser has advised the Independent Board Committee to recommend, and the Independent Financial Adviser also recommends, the Company’s Independent Shareholders to vote in favour of the Resolution that will be proposed at the General Meeting.

General Meeting

Any Shareholder (together with its Close Associates and Associates) with a material interest in the XRL Agreement and the XRL Arrangements is required to abstain from voting with respect to the Resolution.

Accordingly, the FSI and Government (and their Close Associates and Associates) and the Exchange Fund, having a material interest in the XRL Agreement and the XRL Arrangements, not being Independent Shareholders, will be required to abstain from voting with respect of the Resolution.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the FSI (on trust for Government) held 4,434,552,207 Shares, representing 75.7% of the issued Shares, and the Exchange Fund held 29,745,813 Shares, representing 0.51% of the issued Shares. The Company has notified Government that, in addition to the FSI and Government being required to abstain from voting with respect to the Resolution, any Close Associate or Associate of the FSI or Government and the Exchange Fund are also required to abstain from voting with respect to the Resolution. Apart from the FSI, Government, their Close Associates and Associates and the Exchange Fund, the Company is not aware of any other Shareholder that has a material interest in the XRL Agreement or the XRL Arrangements and that is required to abstain from voting on the Resolution.

6. BOARD PROCESS FOR CONSIDERING THE XRL ARRANGEMENTS

As a matter of good corporate governance and in accordance with the Listing Rules, the Board established and has maintained a framework for its decision making processes in relation to the XRL Arrangements and the XRL Agreement, which, amongst other things, seeks to protect the interests of the Independent Shareholders.

The framework has included measures such as:

- (i) each relevant Director disclosed and gave notice of his/her respective interests in the XRL Arrangements and the XRL Agreement;
- (ii) updates relating to the XRL Arrangements and the XRL Agreement were provided to the Board by relevant members of the Executive Directorate at the relevant Board meetings;
- (iii) at each meeting of the Board at which the XRL Arrangements and the XRL Agreement were considered, the Secretary, the Commissioner, Professor Chan Ka-keung, Ceajer (the Secretary for Financial Services and the Treasury) and the Permanent Secretary for Development (Works), being Directors who had a conflict of interest, either did not attend the relevant part of or the entire (as the case may be) Board meeting at which the XRL Arrangements, the XRL Agreement or this Circular were discussed and did not vote on the XRL Arrangements, the XRL Agreement or this Circular;
- (iv) when establishing the Independent Board Committee, the Company ensured that its members comprised only independent non-executive Directors, none of whom have an interest in the XRL Arrangements or the XRL Agreement. The Independent Board Committee, in giving its advice, has acted at all times independently and has taken into account the recommendations of the Independent Financial Adviser; and
- (v) the Independent Board Committee considered a number of potential independent financial advisers and, having considered various factors, including expertise, track record, resources, credibility, understanding of the local environment and ability to act independently, appointed Anglo Chinese Corporate Finance, Limited as the Independent Financial Adviser.

LETTER FROM THE BOARD

The Independent Financial Adviser, in making its recommendations and in giving its advice, has also acted at all times independently and without influence from the Company.

7. GENERAL MEETING AND SUSPENSION OF DEALINGS

The Company has convened the General Meeting for 1 February 2016 to consider, and if thought fit to approve, the terms of the XRL Arrangements and the XRL Agreement. Further details of the General Meeting and the Resolution to be considered at the General Meeting are contained in the “Notice of General Meeting” set out on pages N-1 to N-2 (inclusive) of this Circular.

The FSI and Government (and their Close Associates and Associates) and the Exchange Fund, having a material interest in the XRL Agreement and the XRL Arrangements, not being Independent Shareholders, will be required to abstain from voting with respect to the Resolution.

The Company considers that the results of the voting by the Independent Shareholders with respect to the Resolution, will be “inside information” for the purposes of Part XIV of the SFO. As a result, the Company will request that the Stock Exchange suspends the dealing of the Shares on 1 February 2016 until 9:00 a.m. on 2 February 2016.

Whether or not you are able to attend the General Meeting, you are requested to complete and return the Proxy Form in accordance with the instructions printed thereon, as soon as possible and in any event by 11:00 a.m. on 29 January 2016 (being at least 48 hours before the time for holding the General Meeting or any adjourned meetings thereof and taking no account of any part of a day that is a public holiday (including a Sunday)). Completion and return of a Proxy Form will not preclude you from attending and voting in person at the General Meeting or at any adjourned meetings thereof should you so wish.

After the General Meeting, the Company will announce the results of the General Meeting in accordance with the Listing Rules.

8. PROCEDURE BY WHICH SHAREHOLDERS MAY DEMAND A POLL

The Resolution will be decided on a poll.

The procedure by which Shareholders may demand a poll at a general meeting of the Company is set out in Article 71 of the Company’s articles of association which provides as follows:

“A resolution put to the vote at any general meeting will be decided on a show of hands unless a poll is demanded when, or before, the chairman of the meeting declares the result of the show of hands. A poll may be demanded by:

- (a) the chairman of the meeting;

LETTER FROM THE BOARD

- (b) at least five shareholders at the meeting (including proxies) who are entitled to vote;
- (c) one or more shareholders at the meeting (including proxies) who represent (or who represent members who represent) at least five per cent. of the total voting rights of all shareholders (including proxies) who have the right to vote at the meeting; or
- (d) one or more shareholders (including proxies) who have (or represent members who have) shares which allow them to vote at the meeting and on which the total amount which has been paid up on these shares is at least five per cent. of the total sum paid up on all shares which give the right to vote at the meeting.

The chairman of the meeting must demand a poll if, before or on the declaration of the result on a show of hands, he knows from the proxies received by the Company that the result on a show of hands would be different from that on a poll.

A demand for a poll can be withdrawn if the chairman of the meeting agrees to this.

If no poll is demanded or a demand for a poll is withdrawn, any declaration by the chairman of the meeting of the result of a vote on that resolution by a show of hands will stand as conclusive evidence of the result without proof of the number or proportion of the votes recorded for or against the resolution.”

9. 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 of China and a number of overseas cities; project management in relation to railway and property development businesses; 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 of China; and investment in Octopus Holdings.

Further details of the business activities of the Company are contained in the section headed “Information on the Business of the Company”.

10. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee (contained in the section of this Circular headed “Letter from the Independent Board Committee”) which contains its advice to the Independent Shareholders as to how to vote at the General Meeting in relation to the Resolution. Your attention is also drawn to the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders (which is contained in the section of this Circular headed “Letter from the

LETTER FROM THE BOARD

Independent Financial Adviser”) which contains its recommendations and advice with respect to the terms of the XRL Agreement and the XRL Arrangements, including the principal factors and reasons considered by it in arriving at its recommendations and advice.

After taking into account the reasons and benefits described above for entering into the XRL Agreement and the terms of the XRL Agreement as a whole, the Board (including the independent non-executive Directors) consider the terms of the XRL Agreement and the XRL Arrangements are fair and reasonable, are in the interests of the Company and the Shareholders as a whole, are in the ordinary and usual course of the business (within the meaning of the Listing Rules) of the Group and are on normal commercial terms (within the meaning of the Listing Rules) or better. The Board, including the independent non-executive Directors, therefore recommends the Independent Shareholders to vote at the General Meeting in favour of the Resolution.

By order of the Board
MTR Corporation Limited
Professor Frederick Ma Si-hang
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its advice to the Independent Shareholders in relation to the XRL Agreement and the XRL Arrangements.



MTR CORPORATION LIMITED 香港鐵路有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 66)

The Independent Board Committee

Edward Ho Sing-tin (*Chairman*)

Pamela Chan Wong Shui

Dr. Dorothy Chan Yuen Tak-fai

Vincent Cheng Hoi-chuen

Dr. Eddy Fong Ching

James Kwan Yuk-choi

Lau Ping-cheung, Kaizer

Lucia Li Li Ka-lai

Alasdair George Morrison

Ng Leung-sing

Abraham Shek Lai-him

Benjamin Tang Kwok-bun

Dr. Allan Wong Chi-yun

Registered Office and Principal Office:

MTR Headquarters Building,

Telford Plaza,

Kowloon Bay,

Kowloon,

Hong Kong

7 January 2016

To the Independent Shareholders

Dear Sir or Madam,

**HONG KONG SECTION OF THE GUANGZHOU -
SHENZHEN - HONG KONG EXPRESS RAIL LINK
(1) NOTIFIABLE TRANSACTION
(2) CONNECTED TRANSACTION AND
AMENDMENT OF CONTINUING CONNECTED TRANSACTION
(3) CONDITIONAL SPECIAL DIVIDEND
(4) NOTICE OF GENERAL MEETING**

We refer to the Circular of the Company dated 7 January 2016 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings herein unless the context otherwise requires.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed to form the Independent Board Committee to consider the terms of the XRL Agreement and the XRL Arrangements and to advise the Independent Shareholders whether, in our opinion, such terms are fair and reasonable and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

Anglo Chinese Corporate Finance, Limited has been appointed as Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the XRL Agreement and the XRL Arrangements are fair and reasonable and whether the XRL Agreement and the XRL Arrangements are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole, and to advise the Independent Shareholders on how to vote.

We wish to draw your attention to the letter from the Board (included in the section of the Circular headed “Letter from the Board”) which contains, inter alia, information on the XRL Agreement and the XRL Arrangements, and the letter from the Independent Financial Adviser (included in the section of the Circular headed “Letter from the Independent Financial Adviser”) which contains its recommendations in respect of the terms of the XRL Agreement and the XRL Arrangements.

Having taken into account the recommendations of the Independent Financial Adviser, we consider that the terms of the XRL Agreement and the XRL Arrangements are fair and reasonable, are in the interests of the Company and the Shareholders as a whole, are in the ordinary and usual course of the business (within the meaning of the Listing Rules) of the Group and are on normal commercial terms (within the meaning of the Listing Rules) or better. Accordingly, we advise the Independent Shareholders to vote in favour of the Resolution which is to be proposed at the General Meeting and as is set out in the notice of the General Meeting (contained on pages N-1 to N-2 (inclusive) of the Circular).

If you are in any doubt as to any aspect of the Circular, or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

Yours faithfully,
for and on behalf of
The Independent Board Committee
Edward Ho Sing-tin (*Chairman*)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

ANGLO CHINESE

CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
www.anglochinesegroup.com

財務顧問有限公司
英高

The Independent Board Committee and
the Independent Shareholders of
MTR Corporation Limited

7 January 2016

Dear Sir or Madam,

**HONG KONG SECTION OF
THE GUANGZHOU - SHENZHEN - HONG KONG
EXPRESS RAIL LINK
NOTIFIABLE TRANSACTION
CONNECTED TRANSACTION AND AMENDMENT OF
CONTINUING CONNECTED TRANSACTION
CONDITIONAL SPECIAL DIVIDEND**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the XRL Agreement, details of which are set out in the Letter from the Board set out in this Circular and in our letter. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, we are required to state whether the terms of the XRL Agreement and the XRL Arrangements are fair and reasonable and in the interests of the Company and its Shareholders as a whole, whether the XRL Agreement and the XRL Arrangements are on normal commercial terms (within the meaning of the Listing Rules) and in the ordinary and usual course of the Company's business (within the meaning of the Listing Rules) and advise on whether the Independent Shareholders should vote in favour of the XRL Agreement. The terms used in this letter shall have the same meaning as defined in the Circular of which this letter forms a part, unless the context requires otherwise.

The parties to the XRL Agreement are Government and the Company. Under the Listing Rules Government is a substantial shareholder of the Company by reason of its 75.7% shareholding through FSI, and is considered to be a connected person. The XRL Agreement is a connected transaction and will, upon completion, amend an existing continuing connected transaction. The Stock Exchange has previously granted to the Company a waiver from compliance with the requirements of Chapter 14A of the Listing Rules in respect of transactions between the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company and Government. The XRL Agreement is a notifiable transaction for the Company under Chapter 14 of the Listing Rules and, among other things, will be subject to the approval of the Independent Shareholders at a General Meeting of the Company convened to consider the resolution to approve the XRL Agreement. Any Shareholder (together with its Close Associates and Associates) with a material interest in the XRL Agreement and the XRL Arrangements is required to abstain from voting with respect to the Resolution. Accordingly, the FSI and Government (and their Close Associates and Associates) and the Exchange Fund, having a material interest in the XRL Agreement and the XRL Arrangements, not being Independent Shareholders, will be required to abstain from voting with respect to the Resolution.

The Independent Board Committee, comprising all the independent non-executive Directors of the Company has been formed to advise the Independent Shareholders on the XRL Agreement. We have been appointed to advise the Independent Board Committee and the Independent Shareholders accordingly.

In formulating our opinion and recommendation, we have reviewed sufficient and relevant information and documents supplied to us by the Company and the opinions expressed by, and representations of the Directors, including those set out in this Circular.

We have relied on the accuracy of the information, facts and representations and the opinions expressed by the Company and the Directors in this Circular. We have assumed that the information, facts, representations and opinions were true at the time provided or made and continue to be true at the date of this Circular and will continue to be true at the date of the General Meeting. We consider that we have reviewed sufficient information to reach the conclusion set out in this letter and have no reason to believe any of the information provided to us by the Company is inaccurate or that any material information has been omitted or withheld from the information supplied or the opinion expressed in this Circular. We have also assumed that all the statements of belief, opinion and intention of the Directors and the Company as set out in the announcement published by the Company on 30 November 2015 and in this Circular were reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided to us. We have not, however, carried out any independent verification of the information provided to us by the Directors, nor have we conducted any form of in-depth investigation into the business and affairs or the prospects of the Company.

We engaged EC Harris (Hong Kong) Limited, a member of the Arcadis NV group of companies ("Arcadis"), which is a leading global natural and built asset design and consultancy group, to act as an independent expert and undertake an independent review of the Revised Cost Estimate of HK\$84.42 billion for completion of the Express Rail Link Project. Arcadis applies its design, consultancy, engineering and project management capabilities in delivering its services to its clients through its pool of procurement, contract, risk management, engineering defects and building surveying experts. It employs some 28,000 people and generated in excess of the equivalent of approximately HK\$22 billion in revenues in 2014. Arcadis has been operating in Asia for over 80 years through the combined experiences of the firms, Langdon & Seah and EC Harris. Arcadis has approximately 6,000 staff deployed across the Asia region

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

in over 50 locations and 13 countries. The regional capability is made up of consultancy, engineering, quantity surveying, project and program management and contract solutions. It has been involved in numerous infrastructure, rail and transportation projects around the world. In relation to this independent review, members of Arcadis's contract solution team have been engaged. Arcadis NV is listed on Euronext Amsterdam.

Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees or benefits from the Company, its subsidiaries, directors, chief executive, substantial shareholders or any associates of any of them.

BACKGROUND

The Express Rail Link Project is the construction of a terminus in West Kowloon and a 26-km long high speed railway that will connect Hong Kong to China's National High-speed Rail Network and is intended to enhance Hong Kong's role as the southern gateway to the Mainland of China. The project to construct the Express Rail Link is large and complex, involving the construction of a new underground railway system and subterranean passenger terminus in the middle of a densely populated urban area. It requires the engagement and coordination of multiple contractors of various specialisation for each of the different phases of its programme to completion.

The Express Rail Link was one of the railway projects recommended for implementation in the Railway Development Strategy 2000. The initial plan was to award this project to KCRC which was first involved in 2005, and a project proposal was submitted in 2007. The Company took over the planning of Express Rail Link following the merger with KCRC on 2 December 2007.

On 22 April 2008, the Executive Council of the Hong Kong Government decided that the Express Rail Link would be the first railway project in Hong Kong to be constructed under the concession approach. Under such approach Government would pay for the construction of the railway under the Public Works Programme and bear the construction risk, share the operational risk of the railway and own the project.

On 24 November 2008, Government and the Company entered into EA1, a preliminary entrustment agreement to provide for the design of, and site investigation and procurement activities in relation to, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link. On 26 January 2010, Government and the Company entered into EA2, an entrustment agreement, for the construction and commissioning of Express Rail Link. These entrustment agreements define the Company's role as the project manager of Express Rail Link.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

EA2 contains a "Project Control Total" of HK\$65 billion which was an estimate of the cost of the project at the time of entering into EA2, which, under EA2, may be adjusted by agreement between the Parties in the event that the entrustment cost exceeds the original or previous "Project Control Total". Under EA2, the Company is obliged to exercise the skill and care reasonably expected of a professional and competent project manager and to comply with its other obligations under EA2.

In April 2014, the Company announced that the construction period for the Express Rail Link needed to be extended, with the target opening of the line to passenger services revised to 2017 from 2015. In July 2014, the Company provided Government a revised project cost estimate of HK\$71.52 billion, inclusive of future insurance and project management costs.

With the delay would come additional costs owing to the disruption to the original programme to completion. The Company reviewed the project cost estimate and revised timetable for the construction of the Express Rail Link Project and on 30 June 2015, the Company reported to Government that the Express Rail Link Project was estimated to complete in the third quarter of 2018 at an estimated total project cost of HK\$85.3 billion (including contingency).

Since 30 June 2015, Government and its consultants have been reviewing and discussing with the Company the revised estimated project cost and construction programme and the Parties are now in agreement that the estimated project cost be reduced to the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the Express Rail Link Project (which includes a general contingency reserve of HK\$1.95 billion), on the basis of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, including:

- (i) a reduction of HK\$544 million resulting from confirmation that 5 out of 15 tracks which are not required in the initial period of operations, will only be fitted-out at a later date and, therefore, the costs relating to such fit-out have been deducted;
- (ii) a net reduction of HK\$150 million, as a result of a reduction in the project cost contingency and adjustments to a small number of other items; and
- (iii) a reduction of HK\$186 million to the additional Project Management Cost (so that the total Project Management Cost payable to the Company under EA2 is now agreed at HK\$6.34 billion compared with the previous agreed Project Management Cost under EA2 of HK\$4.59 billion).

As at 30 November 2015, the tunnel excavation work was 99.9% complete (tunnel excavation was fully completed on 12 December 2015), the West Kowloon Terminus was 63.9% complete and overall completion of the Express Rail Link Project was at 75.4%. The Company appointed Battersby Kingsfield Limited, independent experts, to review the Revised Cost Estimate of HK\$84.42 billion and also appointed Dr. Kao Tsung-Chung and Professor Dr. Bent Flyvbjerg (who were independent experts to the 2014 XRL Committee) to review the Revised Cost Estimate of HK\$84.42 billion. Based on its own review of the Revised Programme and the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revised Cost Estimate of HK\$84.42 billion and having taken account of the views of the Independent Experts, the Company currently does not believe that there is any need to revise further the Revised Programme or the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the Express Rail Link Project.

On 30 November 2015, Government and the Company entered into the XRL Agreement following negotiations between the Company and Government relating to the completion of the Express Rail Link Project. Further details of the XRL Agreement are set out below.

THE XRL AGREEMENT

On 30 November 2015, Government and the Company entered into the XRL Agreement relating to the further funding and completion of the Express Rail Link Project. The XRL Agreement contains an integrated package of terms and provides that:

- (i) Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion);
- (ii) the Company will, if the project cost exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts, as more particularly described in section 2 of Appendix II);
- (iii) the Company will pay a Special Dividend of HK\$4.40 in aggregate per Share in two equal tranches (of HK\$2.20 per Share, in cash in each tranche) amounting in total to a combined payment of approximately HK\$25.76 billion calculated based on the number of Shares as at 31 October 2015. Calculated based on Shareholdings in the Company as at 31 October 2015, approximately HK\$19.51 billion will be paid to the FSI and approximately HK\$6.25 billion will be paid to the Company's other Shareholders. The first tranche will be paid in cash within a reasonable period after Completion (payment is estimated to be in the second half of 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is estimated to be in the second half of 2017), assuming the conditions applicable to the XRL Agreement are satisfied. There will be no scrip alternative;
- (iv) Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under EA1 and EA2 (including any question Government may have regarding the validity of the Liability Cap). EA1 and EA2 contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under EA2, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under EA2 and certain fees received by the Company under EA1. Accordingly, the Liability Cap is currently up to HK\$4.94 billion and will increase to up to HK\$6.69 billion when the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

increased Project Management Cost under EA2 of HK\$6.34 billion plus the additional fees referred to above). If the Arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under EA1 and EA2 for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- (a) bear such amount as is awarded to Government up to the Liability Cap;
- (b) seek the approval of its Independent Shareholders, at another General Meeting of the Shareholders (at which the FSI, Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the Excess Liability; and
- (c) if the approval of the Independent Shareholders referred to in (b) above is obtained, pay the Excess Liability to Government. If such approval is not obtained, the Company will not make such payment to Government;
- (v) certain amendments will be made to EA2 to reflect the arrangements contained in the XRL Agreement, including an increase in the Project Management Cost payable to the Company under EA2 to an aggregate of HK\$6.34 billion; and
- (vi) the arrangements under the XRL Agreement (including the payment of the proposed Special Dividend) are conditional on:
 - (a) Independent Shareholder Approval at the General Meeting to be convened on or about 1 February 2016; and
 - (b) LegCo Approval in respect of Government's additional funding obligations, being granted prior to 30 September 2016 (or earlier, if a termination of EA2 is commenced prior to that date) and will become effective if such conditions are satisfied.

If any of the above conditions is not satisfied prior to 30 September 2016 (or such earlier date as is discussed in the section of the Letter from the Board), the XRL Agreement will lapse and the Special Dividend will not be paid.

STATUS OF THE EXPRESS RAIL LINK PROJECT

If the conditions contained in the XRL Agreement (as described in paragraph (vi) above) are satisfied, the Company will be assuming the risk of the cost of the Express Rail Link Project exceeding the Revised Cost Estimate of HK\$84.42 billion, except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts as more particularly described in section 2 of the XRL Agreement appearing in Appendix II). The estimated cost to complete the Express Rail Link Project was revalidated in detail by the Company which was then reviewed by Battersby

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Kingsfield who concluded that, while the Revised Cost Estimate of HK\$84.42 billion is not without risk (which may result in a drawdown of contingency), the allowances made within the HK\$82.47 billion base figure (i.e. excluding contingency) generally appear to be sufficient and sufficient provisions have been made for uncertainties, such that the Express Rail Link Project should be delivered within the Revised Cost Estimate of HK\$84.42 billion, provided that the Company adopts a proactive final account settlement strategy in respect of contractors' claims and the progress continues to be in line with the Express Rail Link revised timetable. Dr. Kao Tsung-Chung and Professor Dr. Bent Flyvbjerg concluded that the Revised Cost Estimate is more likely than not to be adequate to complete the project, although risks remain.

Anglo Chinese engaged Arcadis, the background of which is set out in the introduction of our letter, to undertake an independent review of the Revised Cost Estimate. The review included, and tested, the assumptions, methodology and process used to arrive at the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the Express Rail Link Project. Arcadis undertook a high level review of the quantitative assessments that have been developed and applied by the Company. Arcadis reviewed the Company's strategy in general and the suitability of the Company's assessments to arrive at its opinion as to whether the Company's approach in establishing the Revised Cost Estimate (including the assumptions and allowances), is reasonable and, therefore, whether the Revised Cost Estimate is reasonable.

In summary, the high level review involved three aspects; the state of progress of each of the contracts relating to the Express Rail Link Project; how the estimated final cost has been established; and what is included in the risk review and cost to complete. In establishing the Revised Cost Estimate, Arcadis considers that the Company has adopted and consistently applied a reasonable method and process which appear to have considered all of the likely elements that could contribute to the formulation of a budget and cost to complete exercise. Arcadis did not undertake a separate assessment of the details of the valuations or allowances included in the Revised Cost Estimate of HK\$84.42 billion. In its summary conclusion, Arcadis remarked that establishing a budget for a live construction project such as the Express Rail Link is generally not a simplistic process, does involve a degree of projection and will include a range of assumptions and allowances. This means that it is difficult to predict accurately a precise final outturn cost for the Express Rail Link Project. However, based upon the information provided plus the explanations provided to them, Arcadis concluded that the Company had adopted a reasonable, consistent and logical approach to establishing the likely outturn cost.

In addition we have taken into account the status of the progress of the Express Rail Link Project which was estimated to be approximately 75.4% complete as at 30 November, 2015. The tunnelling work, during which many unexpected geological problems were encountered as well as other unforeseen difficulties, is now completed, having been 99.9% complete at the end of November 2015.

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West Kowloon Terminus

The most challenging contracts have been in respect of the West Kowloon Terminus. As noted by the Independent Experts appointed by the 2014 XRL Committee, the contracts relating to its construction are the most challenging and complex in the overall Express Rail Link Project.

The construction of the West Kowloon Terminus involves principally four major civil contracts which in summary are the following:

Contract Number	Site	Estimated Completion Status*
810A	West Kowloon Terminus North	49.1%
810B	West Kowloon Terminus South	88.9%
811A	West Kowloon Terminus Approach Tunnel North	98.9%
811B	West Kowloon Terminus Approach Tunnel South	70.5%

*Note *: The completion status is as of 30 November 2015*

Contract 810A is the least advanced in progress but the largest in terms of estimated final cost among the four major civil contracts listed above relating to the West Kowloon Terminus. It has therefore been the subject of the most intense scrutiny by the Company in arriving at its estimated cost to completion for the purpose of calculating the Revised Cost Estimate of HK\$84.42 billion.

Contracts 810B, 811A and 811B are significantly more advanced in progress than contract 810A and do not have the same levels of complexity as contract 810A.

Tunnels

The contracts relating to the tunnels required for the railway represent the next largest portion of the Revised Cost Estimate.

The tunnel excavation was completed on 12 December 2015. Although work still needs to be completed on the tunnels, the unexpected geological features encountered during the excavation of the tunnels have been largely overcome, the remaining work comprises principally of track laying and installing the electrical and mechanical installation required for the railway.

Electrical and Mechanical (“E&M”)

The electrical and mechanical engineering work and installations represent the third largest contributor to the Revised Cost Estimate of HK\$84.42 billion. Much of the work comes towards the end of the project completion as the installation of these items and services can only take place after the structure of the terminus and the tunnels has been completed.

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The E&M was 50.96% complete as at the end of November 2015. As the bulk of the E&M works can only commence when the civil works of West Kowloon Terminus and tunnels are close to completion, most of the anticipated additional costs from E&M stem from delays which directly resulted from the delays experienced in respect of the West Kowloon Terminus and the tunnel contracts.

The Express Rail Link as a whole

In conclusion, based on the information from the Company, its detailed validation of the estimated costs to complete the Express Rail Link Project and taking into account of its own work and the views of the Independent Experts, although risks remain that the Revised Cost Estimate of HK\$84.42 billion may be exceeded, the Company does not currently believe that there is any need to revise further the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the Express Rail Link Project. Arcadis, our independent expert concluded that the Company has adopted a reasonable, consistent and logical approach to establishing the Revised Cost Estimate for the agreed scope of the Express Rail Link Project.

We have therefore considered the factors set out below in analysing whether it is reasonable for the Company, to assume the risk under the XRL Agreement of having to bear any project costs in excess of the Revised Cost Estimate of HK\$84.42 billion (except for the agreed excluded costs).

FACTORS FOR CONSIDERATION

The Revised Cost Estimate of HK\$84.42 billion

As set out above, the Revised Cost Estimate has been determined after careful review by the Company and Government, and has been accepted as a reasonable assessment of the cost of the project. After considering the steps taken by the Company in relation to the Revised Cost Estimate and the advice of Arcadis, we consider that the Revised Cost Estimate of HK\$84.42 billion, for the agreed scope of the Express Rail Link Project, has been determined by the Company after due and careful consideration and it is reasonable to expect that the final cost will be within the Revised Cost Estimate.

Reasons for and Benefits of the XRL Agreement

Set out in the Letter from the Board are the reasons for and the benefits of the XRL Agreement, to which the Independent Shareholders are referred.

The Company's Reputation

The Company is renowned as a world class manager of railway projects and its success in being awarded projects in Hong Kong or internationally depends, to an extent, on its reputation. Should the Express Rail Link Project not proceed or be further delayed by reasons of lack of funding, this reputation would be impaired, reducing its competitiveness and its standing to compete for future projects in Hong Kong or internationally. It is believed that the

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Company is a well-respected institution in Hong Kong providing an excellent public transport system which is admired for its efficiency and reliability. The successful completion of the Express Rail Link Project will likely contribute to the preservation of the Hong Kong public's perception of the Company.

Relationship with Government

Government is not only a substantial shareholder of the Company, it also regulates the Company's railway operations. The support of Government has assisted the Company in pioneering the rail and property model under which Government has granted land to the Company on terms which have been critical in financing the capital expenditure required for the development of its railway network. Furthermore, the Company entered into EA2 on the understanding that it would be invited to undertake the operation of the Express Rail Link when it is completed.

Currently there are seven further rail projects which are expected to be developed up to 2031. The Company has provided some technical responses to Government on these new railway projects and will continue to support Government in the delivery of new railways. The XRL Agreement and its terms have been agreed after lengthy and careful negotiations between Government and the Company. From the perspective of the Company, the XRL Agreement is designed to be fair and reasonable and in the interests of the Company as a whole. From the perspective of Government, it is intended to be in the interests of the public, including Hong Kong taxpayers. The XRL Agreement will remove the current uncertainty as to the funding to completion of the Express Rail Link Project. We consider that the XRL Agreement is on normal commercial terms, taking into account that the XRL Agreement was negotiated on an arm's length basis.

Costs to date

The Express Rail Link Project has already absorbed some HK\$55.9 billion of funds as at the end of October 2015 and to suspend or abandon the project for lack of funding is not a realistic alternative. Further negotiation should the XRL Agreement not be approved will cause further delays and considerable costs above the current Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the Express Rail Link Project which would be neither in the interest of the Company nor the public.

Additional Project Management Cost

Should the XRL Agreement be implemented following the approval of the Independent Shareholders and the LegCo agreeing to the funding of the Revised Cost Estimate, the Company will receive increased Project Management Cost of HK\$6.34 billion under EA2, compared with the original Project Management Cost of HK\$4.59 billion.

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Benefit to Hong Kong

The Express Rail Link is important to Hong Kong as it is expected to bring direct benefits in terms of the savings in time and enhanced ease of travel to and from the Mainland of China, where there is already an extensive network of high-speed railway linking the major cities. As stated in the Letter from the Board, with which we concur, 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 it will be in the long term interests of the Company and Hong Kong for the Company to continue working with Government to complete the Express Rail Link Project.

Additional Control Methods

In 2014, the 2014 XRL Committee recommended various measures to enhance project delivery in a more transparent and timely manner. Key recommendations, in particular those in relation to improving programme and cost controls, have all been implemented. In addition, further enhancements have also been undertaken by the Company. Together, these include:

- project cost control has been strengthened by the Company's Executive Committee controlling contingency monies. In addition, the XRL Executive Cost Control Committee, chaired by the Chief Executive Officer of the Company, has been established, to complement the existing Project Control Group, and to strengthen the overall control of the expenditure of the project;
- monitoring and reporting systems relating to project progress and cost have been enhanced. This includes review and regular reporting to the Company's Executive Committee and the Board on the likelihood of achieving the target progress and budget. Project progress is also reported against a clear set of key performance indicators and milestones;
- the establishment of the Capital Works Committee, comprising non-executive Directors and chaired by an independent non-executive Director, to oversee large capital projects (including the Express Rail Link Project). This committee reviews the progress and budget of the Express Rail Link Project at an interval of approximately two months and reports on the status of the project to the Board; and
- the Company's communications strategy for the Express Rail Link Project has been reviewed and enhanced to keep stakeholders informed of the project status in a timely manner.

Taking into account these factors and the alignment in respect of, and commitment of the Company and Government to, the successful delivery of the Express Rail Link, with the target to enable commercial operation to commence in the third quarter of 2018, we consider that the terms of the XRL Agreement are fair and reasonable.

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THE SPECIAL DIVIDEND

Under the XRL Agreement, subject to the Independent Shareholder Approval and LegCo Approval in respect of Government's additional funding obligations, it is proposed that Shareholders will receive a Special Dividend of HK\$4.40 in aggregate per Share in two equal tranches (of HK\$2.20 per Share, in cash in each tranche) amounting in total to a combined payment of approximately HK\$25.76 billion (calculated based on the number of Shares as at 31 October 2015). The first tranche will be paid in cash within a reasonable period after Completion (estimated to be in the second half of 2016) and the second tranche approximately 12 months thereafter (estimated to be in the second half of 2017). Calculated based on Shareholdings of the Company as at 31 October 2015, the total amount will be approximately HK\$25.76 billion. Of this amount and calculated based on Shareholdings in the Company as at 31 October 2015, approximately HK\$19.51 billion will be paid to FSI and approximately HK\$6.25 billion will be paid to the Company's other Shareholders, assuming the conditions of the XRL Agreement are satisfied. No scrip alternative for the Special Dividend is available.

The Special Dividend forms an integral part of the XRL Agreement and treats all Shareholders fairly and equally. Although an interim dividend does itself not require the approval of Shareholders, it is a term of the XRL Agreement which is subject to the approval of Independent Shareholders and therefore we have considered the Special Dividend and its effects in arriving at our opinion on the terms of the XRL Agreement.

Dividend yield

In respect of the financial year ended 31 December 2014, the total ordinary dividend paid was HK\$1.05 per Share. Based on the closing price of the Shares on the Latest Practicable Date of HK\$37.15 per Share, the dividend yield would be 2.8%. The Special Dividend is to be paid in two equal tranches, the first tranche in 2016 and the second tranche in 2017. Although the Company has stated that it intends to maintain its progressive regular dividend policy in respect of ordinary dividends following the Special Dividend subject to, among other things, the financial performance and trading results of the Company and general Hong Kong and global economic conditions, on the basis that the 2014 ordinary dividend is maintained, Shareholders can expect to receive not less than the following by way of dividend in each of 2016 and 2017:

	<i>HK\$</i>
Ordinary dividend per Share not less than	1.05
Special Dividend per Share	<u>2.20</u>
Total dividend per Share	<u><u>3.25</u></u>

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Based on the closing price of the Shares on the Latest Practicable Date of HK\$37.15, this represents a dividend yield of 8.7%. As this level of dividend can only be expected to be paid in 2016 and 2017, it represents an attractive yield to Shareholders for these two years.

Financial impact on the Company

The Independent Shareholders are referred to the unaudited pro forma financial information of the Group set out in Appendix III and to the section 4 in the Letter from the Board “Illustrative and Pro Forma Financial Information relating to the XRL Arrangements”.

Set out below is the illustrative cost of financing of the Special Dividend on the basis that the total amount required for the Special Dividend is funded out of additional borrowings drawn down.

Illustrative cost of financing

3 months HIBOR on 4 December 2015	0.387%
100 bps spread	1.000%
Illustrative cost of financing (A)	<u>1.387%</u>

Illustrative future interest payments	HK\$ million
Additional borrowing amount (B)	25,762
Annual interest payable on additional borrowing amount (A * B)	357
Interest and finance charges in 2014	<u>545</u>
Implied interest and finance charges	<u>902</u>

Although the Company had generally been able to secure a 3 months HIBOR plus less than a 100 bps spread for a typical Hong Kong dollar term loan facility, we have assumed a 1 per cent spread as a prudent illustration above.

Set out below for illustrative purposes is a table showing the effects of the full draw down of additional borrowings for the Special Dividend.

Interest coverage metrics	HK\$ million
Year ended 31 December 2014	
Earnings before interest, tax, depreciation and amortisation from recurrent businesses (“EBITDA”)**	15,478
Recurrent profits attributable to equity Shareholders	8,024
Adjusted recurrent profits attributable to equity Shareholders*	7,667
EBITDA / interest and finance charges	28.4x
EBITDA / implied interest and finance charges	17.2x
Recurrent profits / interest and finance charges	14.7x
Adjusted recurrent profits / implied interest and finance charges	8.5x

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*Note**: Calculated as recurrent profits attributable to equity Shareholders of HK\$8,024 million less the illustrative annual interest payable above of HK\$357 million.

*Note***: The figure of HK\$15,478 million is disclosed in the Company's 2014 annual report under the heading "Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment — arising from recurrent businesses" in the "Consolidated Profit and Loss Account".

As shown in the table directly above, there will be a decline in coverage ratios but on an overall basis, the interest and finance charges will not substantially adversely affect the recurrent results of the Company.

The table below illustrates the gearing impact of the additional borrowings, assuming no change in the balance sheet position since 30 June 2015.

Illustrative gearing impact

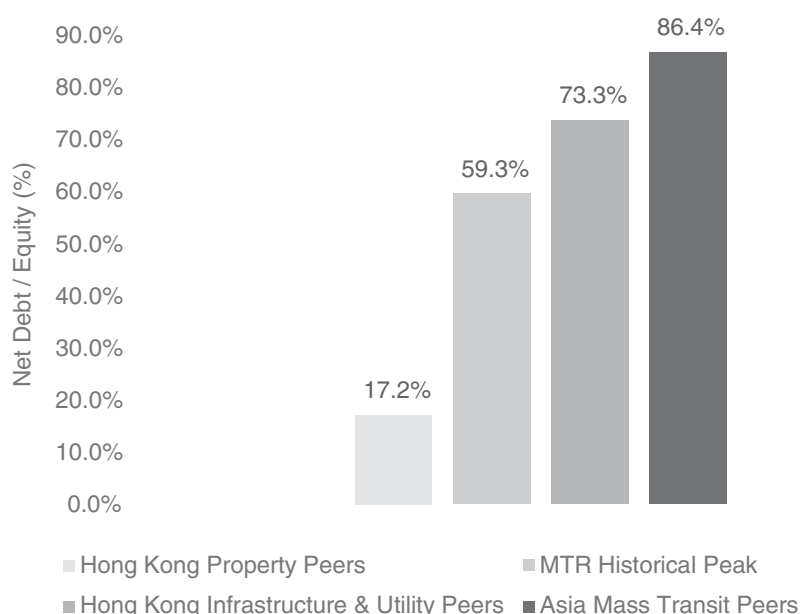
Gearing as at 30 June 2015	HK\$ million
Loans and other obligations	18,467
Obligations under service concession	10,590
Bank overdrafts	18
Short-term loans	400
Loan from holders of non-controlling interests	<u>116</u>
Total debt	29,591
Less: Cash, bank balances and deposits	<u>14,353</u>
Net debt position	<u><u>15,238</u></u>
 Equity	 167,355
Gearing ratio (Net debt / Equity)	9.1%

Illustrative gearing	HK\$ million
Net debt position as at 30 June 2015	15,238
Add: Additional borrowings	<u>25,762</u>
Illustrative net debt position	<u><u>41,000</u></u>
 Equity position as at 30 June 2015	 167,355
Less: Special Dividend paid out	<u>25,762</u>
Illustrative equity position	<u><u>141,593</u></u>
 Illustrative gearing ratio	 29.0%

Below, we compare the illustrative gearing ratio to four different indicators. The illustrative gearing ratio is still well below the Company's historical peak (since privatisation in 2000) and also below 2 of the remaining 3 indicators.

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In forming our opinion on the fairness and reasonableness of the comparison, we have reviewed comparable listed companies (“Comparable Companies”) that can reflect the Company’s unique rail-plus-property business model with primary business exposure to the Hong Kong economy as a whole. Our list of Comparable Companies are principally engaged in either (1) mass transit service in Asia, (2) property sector in Hong Kong or (3) infrastructure and utilities in Hong Kong.



	Stock code	Stock exchange	Net Debt/Equity (%)
Hong Kong Property Peers			
Sun Hung Kai Properties Limited	0016.HK	Hong Kong	11.0%
Cheung Kong Property Holdings Limited	1113.HK	Hong Kong	11.0%
Henderson Land Development Company Limited	0012.HK	Hong Kong	14.1%
The Link Real Estate Investment Trust	0823.HK	Hong Kong	21.4%
New World Development Company Limited	0017.HK	Hong Kong	28.3%
Average			17.2%
Hong Kong Infrastructure and Utility Peers			
CLP Holdings Limited	0002.HK	Hong Kong	66.8%
HK Electric Investments Limited	2638.HK	Hong Kong	88.0%
Hutchison Ports Holdings Trust	NS8U.SI	Singapore	65.0%
Average			73.3%
Asia Mass Transit Peers			
BTS Group Holdings PCL	BTS.BK	Bangkok	-13.5%
SMRT Corporation	S53.SI	Singapore	79.9%
Bangkok Metro Public Company Limited	BMCL.BK	Bangkok	123.9%
SBS Transit Limited	S61.SI	Singapore	155.3%
Average			86.4%

Source: Public financial statements available as of Latest Practicable Date

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Sensitivity analysis on the basis of HK\$10 billion in additional borrowings would increase the illustrative gearing ratio of 29.0% to 36.0% which is still below the Company's historical peak as well as below 2 of the 3 remaining indicators, and which we consider to still be at a manageable level.

Rating agencies

The Company frequently accesses the debt markets and its credit worthiness is rated by Standard & Poor's Ratings Services ("Standard and Poor's") and Moody's Investors Service ("Moody's"), based in the United States of America and Rating and Investment Information, Inc. of Japan ("R&I"). Following the Company's announcement regarding the XRL Agreement on 30 November 2015, credit rating agencies have confirmed that the Company's credit ratings remain unchanged. Details are as follows:

- Standard & Poor's confirmed that it expects the Company's current credit rating of AAA/Stable/A-1+ will not be immediately affected by the XRL Agreement, based on its current expectation that the Company will continue to receive "almost certain" extraordinary support from Government in the event of financial distress although it stated that the significant debt-funded Special Dividend could result in a weakening of the Company's standalone credit profile;
- Moody's stated that while the XRL Agreement is credit negative, there is no immediate impact on the Company's current credit rating of Aa1 and its stable ratings outlook, noting the Company's credit profile remains supported by its solid business fundamentals, strong access to the capital markets and the expectation of the very high level of support the Company will receive from Government in times of need; and
- R&I confirmed that there is no need to change the Company's current credit rating of AA+, noting the Company has a very strong financial base for a railway company.

Accordingly the Company should be able to borrow funds on the same margin as it is currently able to negotiate.

Capital structure

As at 30 June 2015 the Company had distributable reserves of HK\$68.3 billion. The payment of the Special Dividend currently amounting in total to HK\$25.76 billion (calculated based on the number of Shares as at 31 October 2015) will be paid out of distributable reserves, but the remaining balance will still be significant and will not inhibit the Company's ability to pay future ordinary dividends in accordance with the Company's intention on continuing its progressive regular dividend policy.

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Return on equity

Based on the consolidated accounts of the Group in respect of the year ended 31 December 2014, the Group's return on equity was as follows:

	Year ended 31 December 2014	
	HK\$ million Illustrative	HK\$ million Actual
Profit attributable to equity Shareholders from underlying businesses	11,571	11,571
Borrowing cost at 2.9%*	<u>-747</u>	<u>0</u>
	10,824	11,571
Total equity attributable to Shareholders		
- Current year	136,816	163,325
- Prior year	126,795	152,557
- Average (of the above two)	131,806	157,941
Return on equity (using average equity balance)	8.2%	7.3%

Note:* The 2.9% borrowing cost is the weighted average borrowing cost disclosed in the Company's 2015 interim report for the six months ended 30 June 2015.

The above calculation assumes the whole of the Special Dividend had been paid on 31 December 2013. The resulting return on equity shows an enhancement from 7.3% to 8.2% which should be regarded as a more efficient capital structure benefiting Shareholders as a whole.

Earnings per share

On the basis set out under paragraph B of section 4 of the Letter from the Board and calculated on the basis of the Group's basic earnings per share arising from underlying businesses for the year ended 31 December 2014 of HK\$1.99 would have decreased to HK\$1.86 (a decrease of 6.5%) as a result of the proposed payment of the Special Dividend (and assuming the drawdown of the additional borrowing of an equivalent amount and the interest expense thereon, as described in paragraph B of section 4 of the Letter from the Board), of HK\$4.40 per Share.

Working capital

The Independent Shareholders are referred to the statement in the Letter from the Board relating to the sufficiency of working capital of the Group.

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LIABILITY FOR CURRENT COST OVERRUN

Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under EA1 and EA2. EA1 and EA2 contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under EA2 the Company's total aggregate liability to Government (whether in contract, tort (including negligence) or otherwise) in respect of any action should be limited in the total aggregate value to the fees received by the Company under EA1 and the fees that have and will be received by the Company from Government under EA2 (including the increased Project Management Cost that will result from the modification of EA2 upon completion). The Liability Cap is currently up to HK\$4.94 billion and will increase to up to HK\$6.69 billion when the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under EA2 of HK\$6.34 billion plus the additional fees referred to above). If the Arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under EA1 and EA2 for the current cost overrun would exceed the Liability Cap, the Company shall bear such amount as is awarded to Government up to the Liability Cap and, subject to Independent Shareholders' approval, pay such amount of such determined liability as exceeds the Liability Cap. If such approval is not obtained from Independent Shareholders, such excess over the Liability Cap will not be payable. As at the Latest Practicable Date, the Company has not made any provision to the Company's accounts in respect of any possible liability that may be determined in accordance with any such Arbitration that may take place given that (a) the Company has not received any notification from Government of any claim by Government against the Company or of any referral by Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the Express Rail Link); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement the Company will not make any payment to Government in excess of the Liability Cap pursuant to a determination of the Arbitrator without the approval of the Independent Shareholders.

Subject to the Independent Shareholders not approving the payment of any determined liability above the Liability Cap, the Company's position remains unchanged in relation to any claim.

As the Independent Shareholders will have control over the payment of any amount that would exceed the Liability Cap, we do not consider that the inclusion of these terms in the XRL Agreement should affect our opinion on the overall XRL Agreement and its terms.

OPINION AND RECOMMENDATION

The provision of project management services for railway projects is part of the business of the Group and we therefore believe that the entering into and modification of agreements relating to such projects is in the ordinary and usual course of the business of the Company. We further consider that the XRL Agreement and XRL Arrangements are on normal commercial terms as it was the subject of extensive negotiation conducted by each party independently and represented terms which a party could obtain on an arm's length basis. Based on the status of the Express Rail Link Project, the Revised Cost Estimate and the other factors set out in our

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

letter, we consider that the terms of the XRL Agreement and XRL Arrangements are fair and reasonable and to be in the interests of the Company and its Shareholders as a whole. We therefore advise the Independent Board Committee to recommend that the Independent Shareholders vote in favour of the resolution to approve the XRL Agreement. We also recommend that Independent Shareholders vote in favour of the resolution to approve the XRL Agreement.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited

Stephen Clark
Managing Director

Dennis Cassidy
Director — Head of Corporate Finance

1. *Mr. Stephen Clark is a licensed person registered with the Securities and Futures Commission (“SFC”) and as a responsible officer of Anglo Chinese to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. He has over 35 years of experience in corporate finance.*
2. *Mr. Dennis Cassidy is a licensed person registered with the SFC and as a responsible officer of Anglo Chinese to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. He has over 35 years of experience in corporate finance.*

INFORMATON ON THE BUSINESS OF THE COMPANY

The Mass Transit Railway Corporation was established in 1975 as a statutory corporation whose purpose was to construct and operate an urban metro system to help meet Hong Kong's public transport requirements. The Corporation was then wholly-owned by the FSI on trust on behalf of Government.

The Company was re-established as MTR Corporation Limited in June 2000 and was partially privatised in October 2000 after the FSI on behalf of Government sold approximately 23% of shareholding in the Company to independent investors in an initial public offering. The Shares are listed on the Stock Exchange. At the time of the partial privatisation, Government stated that its intention would be to continue to hold not less than 50% of the Company's ordinary share capital for at least 20 years from the commencement of dealings in the Shares in October 2000.

The Company marked another major milestone on 2 December 2007 when the operations of the other Government-owned rail operator, the Kowloon-Canton Railway Corporation, were merged into the Company, heralding a new era in Hong Kong railway development. This was principally structured as a service concession, which was granted to the Company by KCRC. Under the service concession, the Company operates and maintains the KCR Railway for a concession period of 50 years.

HONG KONG TRANSPORT OPERATIONS

With effect from the rail merger described above, the MTR Railway and the previous KCR System have been operated as an Integrated MTR System. The Integrated MTR System comprises nine commuter railway lines — the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail, Ma On Shan and West Rail lines serving Hong Kong Island, Kowloon and the New Territories. There are 87 stations in the Integrated MTR System. In addition, a Light Rail network serves the local communities of Tuen Mun and Yuen Long in the New Territories and a fleet of buses provide convenient feeder services.

The Company also operates the Airport Express, a dedicated high-speed rail link providing fast connections to the Hong Kong International Airport and the exhibition and conference centre, AsiaWorld-Expo.

In addition, the Company provides intercity railway services that connect Hong Kong with Beijing, Shanghai and a number of cities in Guangdong Province in the Mainland of China.

INFORMATON ON THE BUSINESS OF THE COMPANY

FUTURE EXTENSIONS/PROJECTS IN HONG KONG

Ongoing Projects

The Company is currently engaged in the construction of the following new railway extension projects:

- (i) the 7-km South Island Line (East), which will extend MTR services from Admiralty Station to the Southern District of Hong Kong Island and is expected to be completed at the end of 2016;
- (ii) the 2.6-km Kwun Tong Line Extension, which will extend the Kwun Tong Line from its current terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa and is expected to be completed in the third or fourth quarter of 2016;
- (iii) the 17-km Shatin to Central Link, which will link up the existing railway lines to form an East West Corridor and a North South Corridor and is expected to be completed in two phases in 2019 and 2021 respectively; and
- (iv) the 26-km Express Rail Link (which is described in further detail elsewhere in this Circular).

Potential Future Extensions

In September 2014, Government issued its RDS 2014, which outlined Government's agenda for railway expansion in Hong Kong up to 2031 and proposed the following seven new railway projects in Hong Kong:

- (i) Northern Link will be a new railway line formed by linking Kam Sheung Road Station on the West Rail Line to a new station at Kwu Tung on the Lok Ma Chau Spur Line;
- (ii) Hung Shui Kiu Station will be a new station on the West Rail Line located between the existing Tin Shui Wai Station and Siu Hong Station;
- (iii) Tung Chung West Extension will extend the existing Tung Chung Line to a new station in Tung Chung West;
- (iv) Tuen Mun South Extension will extend the existing West Rail Line from Tuen Mun Station to the new Tuen Mun South Station;
- (v) East Kowloon Line will run along the north Kwun Tong area, connecting Diamond Hill Station on the existing Kwun Tong Line (and the future Shatin to Central Link) and Po Lam Station on the existing Tseung Kwan O Line;

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- (vi) South Island Line (West) will be serving the western and southern parts of Hong Kong Island, by forming a loop with the South Island Line (East) and the West Island Line; and
- (vii) North Island Line will run along the northern shore of Hong Kong Island. It will be an extension of the Tung Chung Line and the Tseung Kwan O Line and will cover areas such as Tamar, Hong Kong Convention & Exhibition Centre and Victoria Park.

Government's Policy Agenda, issued in January 2015, stated that Government would take forward these new railway proposals in phases, starting with detailed planning for the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station) and the East Kowloon Line. The Company has provided technical responses to Government on these new railway projects and will continue to support Government in the delivery of new railways to the community.

STATION COMMERCIAL BUSINESSES IN HONG KONG

The Company also leverages on its Hong Kong railway assets and derives revenue from the following related businesses:

- (i) Station retail — the leasing of retail space in its stations and car parking facilities at certain MTR stations (there were 1,356 station shops, covering 55,768 square metres of retail space as at 30 June 2015);
- (ii) Advertising — the leasing of advertising space in its stations and trains (the number of advertising units in stations and trains reached 45,284 as at 30 June 2015); and
- (iii) Telecommunications — the provision of space and telecom services to communications service providers and major enterprises.

PROPERTY DEVELOPMENT, RENTAL AND MANAGEMENT IN HONG KONG

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 property developments.

In conjunction with its railway construction activities, the Company has been involved in the development of residential and commercial properties above and adjacent to MTR stations and depots under agreements with various property developers. Profits that the Company has received from these development ventures have been used by the Company to supplement associated railway returns, thereby contributing to an improved rate of return on the investment of constructing new railway lines.

Projects under development include properties at LOHAS Park Station and Tai Wai Station as well as the development at Tin Wing Light Rail Stop.

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The Company is planning property developments at Wong Chuk Hang Depot site along the South Island Line (East) and at Ho Man Tin site along the Kwun Tong Line Extension.

As a result of the rail merger, the Company took on the role as agent for KCRC and the relevant subsidiaries of KCRC in respect of a number of West Rail property projects. The Company receives agency fees for this role.

The Company also receives income from its property rental and management business in Hong Kong. Its investment portfolio is comprised of mainly 13 shopping malls and some offices, with a total lettable area of approximately 267,788 square metres as at 30 June 2015. The Company has become one of the leading property management companies in Hong Kong, with 93,727 residential units and 763,018 square metres of commercial space under its management as at 30 June 2015.

OTHER KEY BUSINESSES IN HONG KONG

Ngong Ping 360

The Company operates a tourist attraction, Ngong Ping 360, which includes a cable car service and an associated theme village, Ngong Ping Village. Ngong Ping 360 is a 5.7km cable car journey between Tung Chung Town Centre and Ngong Ping on Lantau Island. Ngong Ping Village, adjacent to the Big Buddha and Wisdom Path, is a cultural themed village, incorporating a number of attractions, dining and shopping outlets.

Octopus Holdings

The Company, together with KCRC, KMB Public Bus Services Holdings Limited, Citybus Limited and New World First Bus Services Limited, has a shareholding interest in Octopus Holdings which operates Octopus.

Octopus is an electronic payment system in Hong Kong using a contactless smart card to make payments on public transport and a wide range of retailers and facilities as well as access control for some residential and commercial buildings.

Consultancy Services

The Company offers worldwide consultancy services on railway planning, design management, system integration and assurance, project management, construction management, railway operations and maintenance and non-fare revenue business. The Company has offered services to a number of railway and metro companies, government authorities and rail system suppliers in Australia, the Mainland of China, India, the Middle East and Southeast Asia. Locally in Hong Kong, the Company has been providing operation and maintenance services for the automated people mover at Hong Kong International Airport.

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MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

From its base in Hong Kong, the Company has expanded into the Mainland of China and overseas, and has taken on a range of railway and railway-related property projects as part of the Company's strategy for continuous growth.

Railway projects in the Mainland of China

In the Mainland of China, the Company has been involved in the investment, construction and operation of the 28-km Beijing Metro Line 4, together with the 22-km Beijing Daxing Line (an extension of Beijing Metro Line 4 operated under an operation and maintenance concession), the 47.3-km Beijing Metro Line 14 which is opening in phases, with full line operation expected after 2017 (Phase 1 and Phase 2, with a total length of 27.2km, have been opened), the 20.5-km Shenzhen Metro Longhua Line (Line 4) and the 53.7-km Hangzhou Metro Line 1 (including the 5.7-km Hangzhou Metro Line 1 extension operated under an operation and maintenance concession).

On 28 November 2015, the Company signed a Concession Agreement for the investment and operation of the 50-km Beijing Line 16, an approximately RMB 47.4 billion Public-Private-Partnership project, which will include 29 stations and will open in two phases by the end of 2016 and after 2017, respectively.

Property development, rental and management in the Mainland of China

The Company's wholly owned subsidiary MTR Property Development (Shenzhen) Company Limited is undertaking the development of a depot site (Depot Lot 1) which is located at the Shenzhen Metro Longhua Line Depot. This property project, named Tiara, is the Company's first property development project in the Mainland of China and also its first self-development property project. Pre-sale was successfully launched in 2015. The project offers a total developable gross floor area of over 200,000 square metres.

The Company's 49% interest joint-venture company Tianjin TJ-Metro MTR Construction Company Limited continues to advance the development project of the Beiyunhe Station Lot 1, a development site atop Tianjin Metro Line 6 Beiyunhe Station, which offers a total developable gross floor area of approximately 278,650 square metres and will be developed for mixed residential and commercial use.

The Company's shopping mall in Beijing, Ginza Mall, generates property rental income with a gross floor area of around 30,000 square metres. For the property management business in the Mainland of China, the Company holds a Grade B property management licence under which it manages a total gross floor area of 230,000 square metres at the end of June 2015. This comprised AO City Fortune Centre in Beijing, with 24,000 square metres of commercial and 58,000 square metres of residential space, and the North Star Shopping Center and offices in Beijing with 148,000 square metres of commercial space.

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International railway projects

Internationally, the Company also operates and manages the 167-km London Overground network and the Transport for London Rail, the first phase of the future 118-km Crossrail service, in the United Kingdom, the 390-km Melbourne Metro network in Australia, the 110-km Stockholm Metro network and the MTR Express, an intercity railway between Stockholm and Gothenburg, in Sweden. In September 2014, the Northwest Rapid Transit Consortium, of which the Company is a shareholder, was awarded the Operations, Trains and Systems Public-Private Partnership contract for the 36-km Sydney Metro Northwest project in Australia.

In December 2015, MTR Nordic, a wholly owned subsidiary of the Company, was awarded a concession to operate and maintain the Stockholm Commuter Rail Systems (Stockholms Pendeltåg) starting from December 2016. The Stockholms Pendeltåg connects Sweden's capital city with the surrounding county areas with a total length of 241km and 53 stations.

GOVERNMENT AS SHAREHOLDER**Government's Shareholding**

As at the Latest Practicable Date, the issued share capital of the Company was owned as follows:

Shareholder	Number of Shares	Approximate Voting Power (%)
FSI (on trust for Government) ⁽¹⁾	4,434,552,207	75.7%
Other investors ⁽²⁾	1,423,150,529	24.3%

Notes:

(1) The FSI holds these Shares on trust for Government. This Shareholding does not include the Shareholding of the Exchange Fund nor the Shareholding of any Close Associate or Associate of the FSI or Government.

(2) Includes institutional and retail investors.

The Company has been informed by the Hong Kong Monetary Authority that, as at the Latest Practicable Date, approximately 29,745,813 Shares (not included in the FSI's Shareholding set out in the above table) were held for the account of the Exchange Fund, representing approximately 0.51% of the total number of Shares in issue. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary. As further detailed in the paragraph headed "Connected Transactions and Continuing Connected Transactions" in this section of the Circular, the FSI, Government, their Close Associates and Associates and the Exchange Fund will be required to abstain from voting with respect to the Resolution.

The XRL Arrangements and the XRL Agreement will not affect directly the above Shareholdings.

Control at general meetings

For as long as Government is the beneficial owner of the majority of the Shares in issue, it will be able to pass ordinary resolutions on its own at general meetings of the Company. Ordinary resolutions are passed by a simple majority of members entitled to vote, and actually voting (in person or by proxy), at a meeting for which proper notice has been given in accordance with the Company's articles of association. Under Hong Kong law, all matters for a company may be decided by the passing of ordinary resolutions except those which, under the Companies Ordinance or a company's articles of association, specifically require the passing of a special resolution. Matters which, under Hong Kong law, are to be decided by the passing of a special resolution include the alteration of a company's articles of association, a reduction of a

company's share capital, a resolution of a company that it should be wound up by the court and the voluntary winding up of a company. A special resolution is one which requires not less than three quarters of the votes cast by members, entitled to vote, who vote in person (or by proxy) at a general meeting. If Government is the beneficial owner of at least 75% of the issued Shares, it will be able to pass special resolutions on its own at general meetings of the Company.

To approve the Resolution to be considered at the General Meeting, a simple majority of the members voting is required. The FSI, Government, their Close Associates and Associates and the Exchange Fund are not Independent Shareholders and will be required to abstain from voting with respect to the Resolution.

Control of the Board

The Company, in accordance with its articles of association, has the power to appoint persons to the Board by ordinary resolution. For as long as Government is the beneficial owner of the majority of the issued Shares, it will be able to appoint persons to the Board on its own and, in addition, no other Shareholder, or Shareholders together, will be able to appoint persons to the Board unless Government fails to vote its Shares against the appointment of such persons.

Under Section 8 of the MTR Ordinance, the Chief Executive of Hong Kong may appoint, for a period he directs, not more than three persons to be "additional directors" of the Company. Persons appointed in this way may be removed from office only by the Chief Executive of Hong Kong. In the event of any transaction, arrangement or other kind of proposal being considered by the Board, in which any "additional director" has a material interest, including a material interest that arises as a result of a Government office which he holds, such "additional director" shall abstain from voting at the relevant meeting of the Board in accordance with the provisions of the Company's articles of association, which apply to all Directors. As at the Latest Practicable Date, the office of the Secretary, the office of the Commissioner and the office of the Permanent Secretary for Development (Works) were appointed as "additional directors" under Section 8 of the MTR Ordinance.

Under the Company's articles of association, for so long as Government is the beneficial owner of the majority of the issued Shares, it will be able to appoint the Chairman of the Company. Government exercised this power in appointing Professor Frederick Ma Si-hang as Chairman of the Company with effect from 1 January 2016.

In addition, under the Company's articles of association, for so long as the FSI controls 50% or more of the voting power of the Company, it has the right to appoint and remove any non-executive Director as a member of each of the audit committee, nominations committee and remuneration committee of the Company.

GOVERNMENT AS REGULATOR

The Company's operations are principally regulated under the MTR Ordinance, the Operating Agreement and the Service Concession Agreement.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

In the following paragraphs under this section headed "Connected Transactions and Continuing Connected Transactions", the terms "**Associate**", "**Close Associate**", "**connected person**", "**connected transaction**" and "**continuing connected transaction**" have the meaning ascribed to them in the Listing Rules.

Government is a substantial shareholder of the Company. The XRL Agreement is a connected transaction and will, upon Completion, amend EA2 which is a continuing connected transaction for the Company.

As disclosed in previous announcements by the Company (including the Company's announcement dated 26 January 2010 regarding the execution of EA2), the Stock Exchange has granted the Waiver to the Company which, subject to certain conditions, exempts the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government. Under the Waiver, among other things, the Company must make the XRL Agreement 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. Accordingly, each of the Secretary, the Commissioner, the Permanent Secretary for Development (Works) and Professor Chan Ka-keung, Ceajer (each of whom has a material interest in the XRL Agreement) did not attend the relevant part of or the entire (as the case may be) Board meetings at which the XRL Agreement and XRL Arrangements and this Circular were discussed and did not vote on the XRL Agreement and XRL Arrangements or this Circular.

Details of the XRL Agreement will be disclosed in the next annual report of the Company in accordance with Rule 14A.71 of the Listing Rules and the terms of the Waiver. Although the effect of the Waiver is that the XRL Agreement would not be subject to the independent shareholder approval requirement under Chapter 14A of the Listing Rules, nevertheless the XRL Agreement, being treated as a notifiable transaction under Chapter 14 of the Listing Rules, will be subject to the shareholders' approval requirement under Chapter 14 of the Listing Rules.

Accordingly, the FSI as a connected person with a material interest in the XRL Agreement and the XRL Arrangements is not an Independent Shareholder and (together with its and Government's Close Associates and Associates and the Exchange Fund) will be required to abstain from voting with respect to the Resolution.

The Waiver

The terms of the Waiver also require, among other things, the following:

- (i) the independent non-executive Directors will review the transactions under the XRL Agreement every year and confirm in the Company's annual report whether such transactions have been entered into:
 - (a) in the ordinary and usual course of the business (within the meaning of the Listing Rules) of the Group;
 - (b) on normal commercial terms (within the meaning of the Listing Rules) or better; and
 - (c) in accordance with the XRL Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) 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) which contains certain confirmations in relation to the transactions under the XRL Agreement;
- (iii) the Company shall state in its annual report whether its auditors have given the confirmation in paragraph (ii) above; and
- (iv) 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 (i) and (ii) above.

Set out below is a summary of the principal terms and conditions of the XRL Agreement.

1. FINANCING OF CURRENT COST OVERRUN

Government shall bear and finance the Current Cost Overrun.

2. FINANCING OF FURTHER COST OVERRUN

The Company shall bear and finance the Further Cost Overrun, if any. The Company shall have no obligation to bear and finance such portion of the Further Cost Overrun that:

- (A) results from any change in any ordinance or subsidiary legislation enacted or made after the execution of the XRL Agreement which affects directly the Express Rail Link Project and/or the Entrustment Activities; or
- (B) (a) comprises any costs or expenses (including costs and/or expenses arising directly or indirectly from the suspension and/or any subsequent re-commencement of the relevant Third Party Contracts including, without limitation, any additional costs and expenses in respect of sub-contractors of any tier, suppliers and workers) arising as a direct or indirect result of the Company complying with a written notice from Government instructing the Company to commence suspending Third Party Contracts; or (b) results from the occurrence of a force majeure; or (c) results from the suspension or termination of the EA2 otherwise than as permitted in the paragraph immediately below.

During the period when the Company is bearing and financing the Further Cost Overrun, Government shall not suspend or terminate the Express Rail Link Project and/or EA2 except as a result of the Company breaching EA2 provided Government does so in accordance with EA2.

If the Company becomes aware that the Entrustment Cost will exceed HK\$84.42 billion, it shall use its best endeavours to procure the agreement of relevant Third Parties that:

- (i) such Third Parties will not seek to enforce their rights under the Deed Poll to receive payment from Government of amounts of the Entrustment Cost (if any) that form part of the Further Cost Overrun; and
- (ii) such Third Parties will seek payment from the Company of any amount of the Entrustment Cost that forms part the Further Cost Overrun.

In the event that, notwithstanding 2.(i) and (ii) immediately above, Government is required to, and does, pay a Third Party for an amount of the Entrustment Cost that forms part of the Further Cost Overrun, the Company shall, as soon as reasonably practicable, indemnify Government for such amount paid by Government (excluding any amount referred to in 2.(A) or (B) above) provided Government has paid such amount in accordance with the Deed Poll and EA2.

3. THE SPECIAL DIVIDEND

The Company shall pay the Special Dividend of HK\$4.40 in aggregate per Share as an interim dividend.

The Special Dividend shall be paid in two equal tranches:

- (A) the first tranche will be paid on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules (being a date which is within a reasonable period following Completion) to Shareholders whose names appear on the Register on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules; and
- (B) the second tranche will be paid on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules (being approximately 12 months after payment of the first tranche of the Special Dividend referred to in 3.(A) above) to Shareholders whose names appear on the Register on a date which will be determined by the Board and will be announced by the Company in accordance with the Listing Rules.

4. GENERAL MEETING

The Company shall convene a General Meeting with a view to obtaining the Independent Shareholder Approval.

5. COST OVERRUN ARBITRATION

Government reserves the right to refer the question of the Company's liability (if any) under EA1 and EA2 for the Current Cost Overrun (including any question Government may have regarding the validity of the Liability Cap) to arbitration in accordance with the arbitration provisions in EA2, save that any such referral will take place after the commencement of commercial operations on the Express Rail Link and will not require a prior referral to the senior executives committee or to mediation (as contemplated in EA2).

6. LIABILITY CAP

If the Arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under EA1 and EA2 for the Current Cost Overrun would exceed the Liability Cap, then the Company shall:

- (A) bear such amount as is awarded to Government up to the Liability Cap;
- (B) seek the approval of its Independent Shareholders for the Company to bear the Excess Liability; and

- (C) if the approval of the Independent Shareholders referred to in 6.(B) immediately above is obtained, pay the Excess Liability to Government.

7. CONDITIONS

- (A) The XRL Arrangements (including the payment of the Special Dividend) are conditional on:

- (i) Independent Shareholder Approval being granted; and
- (ii) LegCo Approval being granted,

prior to the Back Stop Date and will become effective when such conditions are satisfied.

- (B) In the event that:

- (i) an alternative solution (as referred to in EA2) which is satisfactory to Government and the Company is not implemented; and
- (ii) Government determines that the suspension of one or more Third Party Contracts in accordance with their terms will have to commence in order that the Entrustment Cost does not exceed HK\$65 billion,

Government may instruct the Company by written notice to commence the suspension process referred to in 7.(B) immediately above and the Company will, as soon as reasonably practicable, comply with such instruction.

- (C) In the event that, as a direct or indirect result of the Company complying with a written notice from Government referred to immediately above, any additional costs or expenses arise (including costs and/or expenses arising directly or indirectly from the suspension and/or any subsequent re-commencement of the relevant Third Party Contracts including, without limitation, any additional costs and expenses in respect of sub-contractors of any tier, suppliers and workers), Government shall bear and finance such costs and expenses (and the Company shall have no responsibility whatsoever to bear and finance any such costs and expenses).
- (D) Unless the Company receives a written notice from Government, the Company shall not commence suspending any Third Party Contract, for the purpose of ensuring that the Entrustment Cost does not exceed HK\$65 billion (and shall continue to administer the Third Party Contracts in such circumstances).
- (E) The Company's liability to Government arising out of, or in connection with 7.(B) and (D) above shall be subject to Liability Cap.

8. AMENDMENTS TO EA2

Certain amendments shall be made to EA2 to reflect the arrangements contained in the XRL Agreement, including:

- (A) an increase in the Project Management Cost payable to the Company to HK\$6.34 billion; and
- (B) the Revised Programme.

9. INTEGRATED PACKAGE

The XRL Arrangements constitute an integrated package of terms.

10. NO PRECEDENT

The XRL Agreement and the XRL Arrangements are specifically tailored to address the particular circumstances of the Express Rail Link Project and shall not serve as a precedent or create any expectations for the manner in which any other project will be addressed.

(A) FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for (i) the six months ended 30 June 2015 and (ii) each of the three years ended 31 December 2012, 2013 and 2014 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.mtr.com.hk>) respectively:

- (i) interim report of the Company for six months ended 30 June 2015 published on 8 September 2015 (pages 41 to 65);
- (ii) annual report of the Company for the year ended 31 December 2012 published on 8 April 2013 (pages 153 to 239);
- (iii) annual report of the Company for the year ended 31 December 2013 published on 2 April 2014 (pages 161 to 250); and
- (iv) annual report of the Company for the year ended 31 December 2014 published on 15 April 2015 (pages 165 to 254).

The following discussion should be read in conjunction with the Group's audited consolidated accounts for the years ended 31 December 2012, 2013 and 2014, as well as unaudited interim financial reports for the six months ended 30 June 2014 and 2015, together with the notes thereto.

(I) Financial Results for the Six Months Ended 30 June 2015 Compared to the Six Months Ended 30 June 2014

Total revenue for the six months ended 30 June 2015 was HK\$20,210 million, an increase of 3.8% from the same period in 2014.

Revenue from Hong Kong transport operations increased by 5.4% from HK\$7,729 million for the six months ended 30 June 2014 to HK\$8,147 million for the same period in 2015 due to higher total patronage from all transport services and adjustments to fares that were partly offset by fare concessions.

Revenue from Hong Kong station commercial businesses increased by 8.5% to HK\$2,579 million mainly due to higher station shop rental rates as well as turnover rents.

Revenue from Hong Kong property rental and management businesses in the first half of 2015 was HK\$2,255 million, 11.3% higher than the comparable period in 2014, as the Group's shopping mall portfolio achieved favourable rental reversion in the first half of 2015.

Revenue from the Mainland of China and international subsidiaries decreased by 2.7% to HK\$6,181 million, which was mainly as the result of currency movements.

Revenue from other businesses grew by 6.0% to HK\$1,048 million, due to a higher level of project management work performed for Government which is partly offset by lower revenue from Ngong Ping 360.

Total operating expenses before depreciation, amortisation and variable annual payment increased by 1.9% from HK\$11,640 million to HK\$11,864 million when compared with the same period in 2014. Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment increased by 6.6% to HK\$8,346 million, with operating profit margin improving from 40.2% in 2014 to 41.3%. Excluding the Mainland of China and international subsidiaries, the operating profit margin increased to 57.0%.

Hong Kong property development profit was HK\$2,811 million, HK\$2,566 million higher than the same period last year, and was mainly derived from profit recognition from the presale of the Hemera property development.

Operating profit before depreciation, amortisation and variable annual payment was HK\$11,157 million in the first half of 2015, representing an increase of 38.2% as compared with the same period in 2014.

Depreciation and amortisation charges increased by 11.4% to HK\$1,880 million, while the variable annual payment to KCRC increased by 12.1% to HK\$786 million as a higher portion of revenue is charged under the highest progressive rate of 35%. Operating profit before interest and finance charges was 49.3% higher than the same period last year at HK\$8,491 million.

Net interest and finance charges increased by 7.7% to HK\$295 million. Investment property revaluation gain amounted to HK\$1,362 million, down from HK\$3,523 million for the same period in 2014.

Share of profit from Octopus Holdings increased by 12.5% to HK\$117 million. Share of profit from other associates was HK\$49 million as compared to a profit of HK\$25 million for the same period in 2014, mainly due to improvements in the results of Hangzhou MTR Corporation Limited and Beijing MTR Corporation Limited.

After deducting income tax of HK\$1,446 million and profits shared by non-controlling interests of HK\$89 million, the Group's profit attributable to equity Shareholders for the six months ended 30 June 2015 was HK\$8,189 million, an increase of 3.5% compared with HK\$7,912 million for the same period last year. Earnings per share increased from HK\$1.36 to HK\$1.40. Earnings per share based on the underlying business profit increased from HK\$0.76 to HK\$1.17.

The Board has declared an interim dividend of HK\$0.25 per share, with a scrip dividend option offered.

(II) Financial Results for the Year Ended 31 December 2014 Compared to the Year Ended 31 December 2013

Total revenue for the year ended 31 December 2014 was HK\$40,156 million, an 3.7% increase from HK\$38,707 million in 2013.

Revenues from Hong Kong transport operations in 2014 increased by 7.0% to HK\$16,223 million as a result of higher patronage in all of the Company's transport services and adjustments to fares which were partly offset by fare concessions.

Revenue from Hong Kong station commercial businesses increased by 8.2% to HK\$4,963 million in 2014 which was driven mainly by the rise in station retail revenue.

Revenue from Hong Kong property rental and management businesses also increased by 10.9% to HK\$4,190 million in 2014 mainly benefited from an average 13% increase in rental reversion achieved in the Group's shopping mall portfolio.

Revenue from the Mainland of China and international subsidiaries decreased by 4.7% to HK\$12,627 million, mainly due to exchange rate movements.

Revenue from other businesses increased 11.6% from HK\$1,929 million in 2013 to HK\$2,153 million in 2014 mainly due to an increase in revenue from project management services to Government and an increase in revenue in the Ngong Ping 360 service in 2014.

Total operating expenses before depreciation, amortisation and variable annual payment increased by 1.7% from HK\$24,308 million in 2013 to HK\$24,733 million in 2014. Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment amounted to HK\$15,423 million, an increase of 7.1% from HK\$14,399 million in 2013. Operating profit margin improved from 37.2% in 2013 to 38.4% in 2014. Excluding the Mainland of China and international subsidiaries, the operating profit margin slightly decreased by 0.3 percentage point to 53.1%.

Hong Kong property development profit in 2014 was HK\$4,216 million, comprising profit recognition from The Austin and Grand Austin, surplus from the sale of inventory units and agency fee income from the West Rail property developments. Compared to 2013 when profit was derived mainly from the sale of inventory units at The Riverpark at Che Kung Temple Station and car parking spaces at various developments, property development profit in 2014 increased by HK\$2,820 million.

Operating profit before depreciation, amortisation and variable annual payment was HK\$19,639 million in 2014, an increase of 24.3% from HK\$15,795 million in 2013.

Depreciation and amortisation charges increased 3.4% from HK\$3,372 million in 2013 to HK\$3,485 million in 2014. The variable annual payment to KCRC was HK\$1,472 million, increasing by 18.0% compared to 2013 as a result of a higher level of relevant revenue generated and charged at the highest charge band of 35%. Operating profit before interest and finance charges increased by 31.4% to HK\$14,682 million.

Net interest and finance charges decreased by 25.5% to HK\$545 million due to lower average debt balances.

The investment property revaluation gain amounted to HK\$4,035 million in 2014, down from HK\$4,425 million in 2013.

Share of profits from associates decreased by 23.4% to HK\$121 million mainly resulting from a decrease in share of profits from Beijing MTR Corporation Limited and Tunnelbanan Teknik Stockholm AB and share of initial losses in respect of the new franchise in Australia.

After deducting income tax of HK\$2,496 million and profits shared by non-controlling interests of HK\$191 million, the Group's profit attributable to equity Shareholders increased from HK\$13,025 million in 2013 to HK\$15,606 million in 2014 with earnings per share increasing from HK\$2.25 in 2013 to HK\$2.69 in 2014. Earnings per share based on the underlying business profit increased from HK\$1.48 to HK\$1.99.

The Company paid the final dividend for the year ended 31 December 2013 and the interim dividend for the six months ended 30 June 2014, in aggregate totalling HK\$5,341 million during 2014. The Board proposed a final dividend for the year ended 31 December 2014 of HK\$0.80 per share with a scrip dividend option offered, giving a full year dividend of HK\$1.05 per share and an increase of 14.1% over 2013. The final dividend for the year ended 31 December 2014 amounting to HK\$4,673 million was paid in July 2015.

(III) Financing

As at 30 June 2015, 56% of the Group's outstanding debt bore interest at fixed rates with the remaining 44% at floating rates. As at 30 June 2015, 98% of the Group's outstanding debt was denominated in or hedged into HK dollars, or where the debt is denominated in foreign currency, naturally hedged by assets or cash flows from overseas businesses, and the remaining 2% of the Group's outstanding debt was denominated in US dollars.

As at 30 June 2015, the Group had available undrawn committed banking facilities of HK\$7,670 million and uncommitted debt issuance and short-term banking facilities of HK\$20,658 million. Outstanding borrowings as at 30 June 2015 were HK\$18,600 million.

The projections for repayment of loans outstanding as at 30 June 2015 are shown in the following table.

As at 30 June 2015

(HK\$ million)

Borrowings

Repayable within one year	701
Repayable between one and two years	6,667
Repayable between two and five years	3,053
Repayable beyond five years	8,179
Total	<u>18,600</u>

Note:

(1) *The ageing schedule analysis is based on the outstanding principal amounts.*

The Group's major payments for the year ended 31 December 2014 included capital expenditures of HK\$12,359 million mainly for the construction of Hong Kong railway extension projects, property development projects and purchase of assets for Hong Kong transport and related operations, fixed and variable annual payments of HK\$1,997 million, net interest and finance charges payment of HK\$602 million, net loan repayment (including bank overdraft) of HK\$3,650 million, investment in an associate of HK\$294 million and cash dividends of HK\$5,097 million. These payments were mainly financed by the net cash inflow from operating activities of HK\$16,044 million and cash received from property developments of HK\$9,176 million. Including the mark-to-market and hedge accounting effects, the carrying amount of total debt outstanding decreased from HK\$24,131 million as at 31 December 2013 to HK\$20,112 million as at 31 December 2014. Including obligations under the service concession, loan from holders of non-controlling interests and other obligations, the components of debt (measured by net debt-to-equity ratio) decreased from 11.8% at 2013 year end to 7.6% at 2014 year end.

The Group's major payments for the six months ended 30 June 2015 included capital expenditure of HK\$1,876 million for the purchase of assets for Hong Kong transport operations' existing railways and related operations, HK\$2,395 million for the construction of the Hong Kong railway extension projects, HK\$555 million for Shenzhen Longhua Line railway operations and HK\$162 million for other overseas transport operations, capital expenditure for property related businesses of HK\$8,069 million, including HK\$7,717 million in respect of Hong Kong property development projects,

variable annual payment of HK\$1,472 million, net interest payment of HK\$278 million and net loan repayment (including bank overdraft) of HK\$1,944 million. These payments were mainly financed by the net cash inflow from operating activities of HK\$9,727 million and cash received from property developments of HK\$2,440 million. Including the mark-to-market and hedge accounting effect, the carrying amount of total debt outstanding decreased from HK\$20,112 million as at 31 December 2014 to HK\$18,045 million as at 30 June 2015. Including obligations under the service concession, loan from holders of non-controlling interests and other obligations, the component of debt (measured by net debt-to-equity ratio) increased from 7.6% at 2014 year end to 9.1% as at 30 June 2015.

(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

For illustrative purposes only, set out below is the unaudited pro forma financial information of the Group as if the XRL Arrangements became effective as at 30 June 2015.

(I) Introduction

The accompanying unaudited pro forma financial information of the Group comprising the unaudited pro forma consolidated statement of financial position, has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the XRL Arrangements.

The unaudited pro forma financial information of the Group should be read in conjunction with other financial information included elsewhere in this Circular.

The unaudited pro forma consolidated statement of financial position of the Group is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2015, and as if the conditions applicable to the XRL Agreement were satisfied and the Special Dividend were approved on 30 June 2015.

The unaudited pro forma financial information of the Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, and because of its hypothetical nature, it does not purport to describe the actual financial position of the Group that would have been attained had the XRL Arrangements become effective at, and the Special Dividend been approved on, 30 June 2015. It is prepared for illustrative purposes only and does not purport to predict the Group's future financial position.

(II) Unaudited Pro Forma Consolidated Statement of Financial Position of the Group
As at 30 June 2015

	Unaudited Consolidated Statement of Financial Position of the Group <i>HK\$ million</i> <i>Note 1</i>	<i>Unaudited Pro forma Adjustments</i> <i>HK\$ million</i>	Unaudited Pro forma Consolidated Statement of Financial Position of the Group <i>HK\$ million</i>
Assets			
Fixed assets			
- Investment properties	67,121	—	67,121
- Other property, plant and equipment	79,275	—	79,275
- Service concession assets	<u>27,236</u>	—	<u>27,236</u>
	173,632	—	173,632
Property management rights	29	—	29
Railway construction in progress	17,598	—	17,598
Property development in progress	15,327	—	15,327
Deferred expenditure	167	—	167
Interests in associates	6,124	—	6,124
Deferred tax assets	67	—	67
Investments in securities	555	—	555
Properties held for sale	1,188	—	1,188
Derivative financial assets	85	—	85
Stores and spares	1,443	—	1,443
Debtors, deposits and payments in advance	6,243	—	6,243
Amounts due from related parties	1,227	—	1,227
Cash, bank balances and deposits	<u>14,353</u>	—	<u>14,353</u>
	<u>238,038</u>	—	<u>238,038</u>

	Unaudited Consolidated Statement of Financial Position of the Group <i>HK\$ million</i> <i>Note 1</i>	<i>Unaudited Pro forma Adjustments</i> <i>HK\$ million</i>		Unaudited Pro forma Consolidated Statement of Financial Position of the Group <i>HK\$ million</i>
Liabilities				
Bank overdrafts	18	—		18
Short-term loans	400	—		400
Creditors and accrued charges	20,106	6,250	<i>Note 2</i>	26,356
Current taxation	2,121	—		2,121
Contract retentions	1,142	—		1,142
Amounts due to related parties	4,883	19,512	<i>Note 2</i>	24,395
Loans and other obligations	18,467	—		18,467
Obligations under service concession	10,590	—		10,590
Derivative financial liabilities	771	—		771
Loan from holders of non-controlling interests	116	—		116
Deferred income	1,109	—		1,109
Deferred tax liabilities	10,960	—		10,960
	<u>70,683</u>	<u>25,762</u>		<u>96,445</u>
Net assets	<u>167,355</u>	<u>(25,762)</u>		<u>141,593</u>
Capital and reserves				
Share capital	45,756	—		45,756
Shares held for Share Incentive Scheme	(150)	—		(150)
Other reserves	121,546	(25,762)	<i>Note 2</i>	95,784
Total equity attributable to equity Shareholders of the Company	167,152	(25,762)		141,390
Non-controlling interests	203	—		203
Total equity	<u>167,355</u>	<u>(25,762)</u>		<u>141,593</u>

(III) Notes to the Unaudited Pro Forma Financial Information

- Note 1: The unaudited consolidated statement of financial position of the Group as at 30 June 2015 is extracted from the 2015 Interim Report which was prepared in accordance with the applicable Hong Kong Financial Reporting Standards (“HKFRSs”) and applicable disclosure provisions of the Listing Rules.
- Note 2: The unaudited pro forma adjustments have been made to the unaudited consolidated statement of financial position of the Group as at 30 June 2015 as if the Special Dividend of HK\$25,762 million in aggregate (calculated based on 5,854,924,236 Shares outstanding as at 31 October 2015) and representing HK\$4.40 in aggregate per Share had been declared on 30 June 2015 from retained profits and dividend payables of HK\$19,512 million attributable to the FSI (on trust for Government) (calculated based on its Shareholding as at 31 October 2015) and HK\$6,250 million attributable to other Shareholders (calculated based on respective Shareholdings as at 31 October 2015) had been recognised.
- Note 3: As the payment of the Special Dividend is subject to the conditions of the XRL Agreement (as described in section 2(vi) in the Letter from the Board) being satisfied and the anticipated payment of the Special Dividend will occur in two equal tranches but is not expected to be until later dates, the unaudited pro forma consolidated statement of financial position of the Group as at 30 June 2015 in section II of Appendix III does not take into account the potential additional borrowing that will be required to finance the payment of the Special Dividend and also does not take into account the potential interest and finance charges that may be incurred once the additional borrowing is drawn.
- (i) If the unaudited pro forma consolidated statement of financial position as at 30 June 2015 of the Group had been adjusted as if both the Special Dividend of HK\$25,762 million (calculated based on 5,854,924,236 Shares outstanding as at 31 October 2015) had been fully paid and the additional borrowings of an equivalent amount to finance the payment of the Special Dividend had been drawn on 30 June 2015, the unaudited adjusted creditors and accrued charges would be HK\$20,106 million, amounts due to related parties would be HK\$4,883 million, loans and other obligations would increase from HK\$18,467 million to HK\$44,229 million as the net effect of the payment of the Special Dividend that is funded by additional borrowings of an equivalent amount is to record a loan payable instead of a dividend payable. The unaudited adjusted pro forma net assets of the Group as at 30 June 2015 taking into account the above adjustments would be HK\$141,593 million.

For the purpose of calculation of the Group's net debt-to-equity ratio, net debt and total equity of the Group as at 30 June 2015 taking into account the above adjustments would be as follows:

	As Adjusted <i>(for illustrative purposes)</i> HK\$ million
Net Debt	
Cash, bank balances and deposits	14,353
Bank overdrafts	(18)
Short-term loans	(400)
Loans and other obligations	(44,229)
Obligations under service concession	(10,590)
Loan from holders of non-controlling interests	(116)
	<u>(41,000)</u>
Total Equity	<u>141,593</u>
Net Debt-to-Equity Ratio¹(%)	29.0%

Note:

1. Net debt-to-equity ratio is defined as loans and other obligations, bank overdrafts, short-term loans, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits as a percentage of total equity.
- (ii) If the consolidated profit and loss account of the Group for the year ended 31 December 2014 is adjusted as if both the Special Dividend of HK\$25,762 million (calculated based on 5,854,924,236 Shares outstanding as at 31 October 2015) had been fully paid and the additional borrowings to finance the payment of Special Dividend had been drawn on 31 December 2013, interest and finance charges of the Group for the year ended 31 December 2014 of HK\$545 million would increase by HK\$747 million (calculated based on the Company's weighted average borrowing rate of 2.9% for the half year ended 30 June 2015) relating to the additional borrowings drawn, to HK\$1,292 million. This would result in a decrease in (a) profit attributable to equity Shareholders arising from underlying businesses from HK\$11,571 million for the year ended 31 December 2014 to HK\$10,824 million; and (b) total profit attributable to equity Shareholders from HK\$15,606 million for the year ended 31 December 2014 to HK\$14,859 million, accordingly.

Consequently, this would reduce the Group's basic earnings per Share calculated based on profit attributable to equity Shareholders arising from underlying businesses for the year ended 31 December 2014 from HK\$1.99 per Share to HK\$1.86 per Share. It should be noted that the interest rate used for the illustration of the interest and finance charge of 2.9% does not necessarily reflect the actual interest rate that may be obtained by the Group. The actual interest rate may be different, being higher or lower than the rate used for illustrative purposes.

For the purpose of calculation of the Group's return-on-equity for the year ended 31 December 2014, profit attributable to equity Shareholders arising from underlying businesses and average total equity attributable to equity Shareholders taking into account the above adjustments would be as follows:

	As Adjusted <i>(for illustrative purposes)</i> <i>HK\$ million</i>
Profit attributable to equity Shareholders arising from underlying businesses for the year ended 31 December 2014	<u>10,824</u>
Total equity attributable to equity Shareholders	
As at 31 December 2014	136,816
As at 31 December 2013 and 1 January 2014	<u>126,795</u>
Average	<u>131,806</u>
Return-on-equity¹(%)	8.2%

Note:

- Return on average equity attributable to Shareholders arising from underlying businesses is defined as profit attributable to equity Shareholders arising from underlying businesses of the Company as a percentage of the average of the beginning and closing total equity attributable to equity Shareholders of the period.

Note 4: No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2015.

**(C) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of incorporation in this Circular.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

7 January 2016

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF MTR CORPORATION LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of MTR Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2015 and related notes as set out in Section B of Appendix III to the circular dated 7 January 2016 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Section B of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the special dividend arrangement stipulated in the Deed of Agreement in relation to the Express Rail Link between the Government of the Hong Kong Special Administrative Region and the Company dated 30 November 2015 (the "Proposed Transaction") on the Group's financial position as at 30 June 2015 as if the Proposed Transaction had taken place at 30 June 2015. As part of this process, information about the Group's financial position as at 30 June 2015 has been extracted by the Directors from the unaudited consolidated interim financial statements of the Company for the six months ended 30 June 2015, on which a review report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

(D) STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2015, the Group had outstanding borrowings as follows:

in HK\$ million

The Group

Capital market instruments

Listed or publicly traded:

Debt issuance programme notes due during 2017 to 2043	5,205
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Unlisted:

Debt issuance programme notes due during 2016 to 2055	8,635
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Total capital market instruments	13,840
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Bank loans	3,701
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Others	906
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Loans and others	18,447
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Bank overdrafts	26
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Short-term loans	1,100
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Total	19,573
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Within the outstanding borrowings of HK\$19,573 million as at 30 November 2015, HK\$15,872 million was unsecured and HK\$3,701 million was secured. The secured borrowings of HK\$3,701 million as at 30 November 2015 were secured by pledging the fare and non-fare revenue and the benefits of the insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line operated by an indirect wholly owned subsidiary of the Company.

By Repayment Terms <i>in HK\$ million</i>	Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others				
Amounts repayable beyond 5 years	5,299	2,330	821	8,450
Amounts repayable within a period of between 2 and 5 years	2,815	823	64	3,702
Amounts repayable within a period of between 1 and 2 years	6,184	274	16	6,474
Amounts repayable within 1 year	<u>200</u>	<u>274</u>	<u>5</u>	<u>479</u>
	14,498	3,701	906	19,105
Bank overdrafts	—	26	—	26
Short-term loans	—	<u>1,100</u>	—	<u>1,100</u>
Total repayable amount of debt	14,498	4,827	906	20,231
Less: Unamortised discount/premium/finance charges outstanding	(59)	—	—	(59)
Adjustment due to fair value change of financial instruments	<u>(599)</u>	<u>—</u>	<u>—</u>	<u>(599)</u>
Carrying amount outstanding	<u>13,840</u>	<u>4,827</u>	<u>906</u>	<u>19,573</u>

Save as disclosed in the above table, the Group's obligations under the service concession and loan from holders of non-controlling interests as at 30 November 2015 amounted to HK\$10,569 million and HK\$109 million respectively.

As at 30 November 2015, the Group had available undrawn committed bank loan facilities amounting to HK\$12,116 million. In addition, the Group had a number of uncommitted facilities with undrawn amounts totalling HK\$20,171 million, comprising a debt issuance programme of HK\$17,132 million and short-term bank loan facilities of HK\$3,039 million.

As at 30 November 2015, the Group had committed to issue a HK\$120 million 10-year term note which was subsequently issued out of the Company's debt issuance programme on 4 December 2015.

As at 30 November 2015, the Group had the following material contingent liabilities, financial and performance guarantees:

- (i) standby letters of credit to the institutional investors in the United States totalling approximately HK\$1,179 million in respect of the lease out/lease back transactions (as disclosed in 2014 Annual Report - Note 21E to the Accounts); and

- (ii) various bank guarantees, standby letters of credit, performance bonds, parent company guarantees and payment guarantees totalling approximately HK\$5,050 million provided in respect of the Group's railway franchises, property rental and consultancy businesses in the Mainland of China and overseas.

As discussed in Section 2(iv) of the Letter from the Board, Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company's liability for the Current Cost Overrun (if any).

As of the Latest Practicable Date, the Company has not made any provision in the Company's accounts in respect of:

- (i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the Revised Programme or the Revised Cost Estimate of HK\$84.42 billion;
- (ii) any possible liability for the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in section 2(iv) of the Letter from the Board), given that (a) the Company has not received any notification from Government of any claim by Government against the Company or of any referral by Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the Express Rail Link); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement, the Company will not make any payment to Government in excess of the Liability Cap pursuant to a determination of the Arbitrator without the approval of the Independent Shareholders; and
- (iii) any possible insufficiency of the Project Management Cost to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the Express Rail Link Project, given that the Company estimates that the Project Management Cost should be sufficient to cover such costs (based on currently known circumstances),

and because the Company is not able to estimate reliably the financial effect on the Company, if any, arising from the matters described in (i), (ii) and (iii) above.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any debt securities issued and outstanding or authorised or otherwise created but unissued, any other term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptance or acceptance credits or hire purchase commitments (whether secured/unsecured, guaranteed or not), any other mortgages and charges, and any other material contingent liabilities at the close of business on 30 November 2015.

On 1 December 2015 the Group entered into a commitment to issue a term note for the amount of Australian dollars 20 million which was subsequently issued out of the Company's debt issuance programme on 7 December 2015.

Save for the above, the Board has confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 November 2015, up to and including the Latest Practicable Date.

(E) STATEMENT OF WORKING CAPITAL

The Board is of the opinion that, taking into account the internal resources and the unutilised financing facilities currently available to the Group and additional borrowings currently under discussion with various financial institutions, the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of this Circular, in the absence of unforeseen circumstances.

(F) TREND OF BUSINESS AND TRADING AND FINANCIAL PROSPECTS OF THE GROUP

In Hong Kong, further economic growth as well as the full year effect of the opening of the Western extension of the Island Line drove continued growth in patronage in the Group's transport business in 2015. Results of the Group's station retail and property rental businesses in 2015 were affected by rental renewals and reversions, which depended on market conditions.

In recurrent businesses outside of Hong Kong, the Group's overall results in 2015 were impacted by currency movements. In the second half of 2015, the Group signed the concession agreement for Beijing Metro Line 16 and was awarded a concession to operate and maintain the Stockholm Commuter Rail Systems (Stockholms Pendeltåg).

In the Group's property development business, in Hong Kong the Group had recognised profit from LOHAS Park Package 3 ("Hemera") in the first half of 2015, whilst in the second half of 2015, the Group had no project subject to presale and hence development profits for the second half of 2015 only came from sundry sources such as the sale of units in inventory. In Shenzhen, presale continued at Tiara, although profit booking would only take place when the sold units are handed over to buyers beyond 2015.

In relation to the Group's property tendering activities, the Group awarded Tin Wing Stop and LOHAS Park Packages 6, 7, 8 and 9 in 2015.

Independent Financial Adviser to the IBC	Anglo Chinese Corporate Finance, Limited
Legal Adviser to the Company (as to Hong Kong Law)	Slaughter and May
Auditor and reporting accountant	KPMG

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors (except for the Secretary, the Commissioner, the Permanent Secretary for Development (Works) and Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury) who have not participated in the relevant part of or the entire (as the case may be) Board meeting at which this Circular was considered) collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay compensation or make other payments equivalent to more than one year's emoluments.

3. DIRECTORS' COMPETING INTERESTS, INTERESTS IN MATERIAL CONTRACTS OR ARRANGEMENTS

Except as otherwise disclosed (or incorporated by reference) in this Circular, no contracts or arrangements to which the Company or any member of its Group was a party and in which a Director had a material interest and which was significant to the Company's business, whether directly or indirectly, subsisted at the Latest Practicable Date. Except as otherwise disclosed (or incorporated by reference) in this Circular, none of the Directors or their respective Close Associates or Associates has any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling Shareholder for the purpose of the Listing Rules) or any interest, direct or indirect, in any of the assets which are the subject of the XRL Agreement and the XRL Arrangements.

4. DETAILS OF DIRECTORS AND SENIOR MANAGERS

As at the Latest Practicable Date, the members of the Board, the Executive Directorate and the Executive Committee were as set out below:

Members of the Board

Non-Executive Directors

Dr. Raymond Ch'ien Kuo-fung (Chairman up to and including 31 December 2015)

Professor Frederick Ma Si-hang (Chairman designate up to and including 31 December 2015 and Chairman with effect from 1 January 2016)

Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)

Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)

Permanent Secretary for Development (Works) (Hon Chi-keung)

Commissioner for Transport (Ingrid Yeung Ho Poi-yan)

Independent Non-Executive Directors

Pamela Chan Wong Shui

Dr. Dorothy Chan Yuen Tak-fai

Vincent Cheng Hoi-chuen

Dr. Eddy Fong Ching

Edward Ho Sing-tin

James Kwan Yuk-choi

Lau Ping-cheung, Kaizer

Lucia Li Li Ka-lai

Alasdair George Morrison

Ng Leung-sing

Abraham Shek Lai-him

Benjamin Tang Kwok-bun

Dr. Allan Wong Chi-yun

Executive Director

Lincoln Leong Kwok-kuen (*Chief Executive Officer*)

Members of the Executive Directorate

Lincoln Leong Kwok-kuen (*Chief Executive Officer*)

Morris Cheung Siu-wa

Jacob Kam Chak-pui

Stephen Law Cheuk-kin

Gillian Elizabeth Meller

Linda So Ka-pik

David Tang Chi-fai

Philco Wong Nai-keung

Jeny Yeung Mei-chun

Members of the Executive Committee

Members of the Executive Directorate (listed above) and Adi Lau Tin-shing.

Biographical details of the members of the Board, the Executive Directorate and the Executive Committee are disclosed on the Company's website (http://www.mtr.com.hk/en/corporate/investor/governance.html#Members_of_the_Board).

5. DISCLOSURE OF INTERESTS**A. Directors and chief executive**

At the Latest Practicable Date, the interests or short positions of each Director in the Shares, underlying Shares and debentures of the Company (within the meaning of Part XV of the SFO), and the details of any right to subscribe for Shares, as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO) or as required to be entered in the register kept by the Company referred to under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules ("**Model Code**"), were as follows:

Member of the Board and/or the Executive Directorate	Number of Shares held				Number of Share Options	Number of Share Awards	Total interests	Percentage of aggregate interests to total number of voting Shares in issue
	Personal* interests	Family† interests	Other interests	Corporate interests	Personal* interests	Personal* interests		
Raymond Ch'ien Kuo-fung	53,543	—	—	—	—	—	53,543	0.00091
Frederick Ma Si-hang	—	70,000 (Note 1)	70,000 (Note 1)	—	—	—	70,000	0.00120
Lincoln Leong Kwok-kuen	363,000	—	—	23,000 (Note 2)	797,000	315,200	1,498,200	0.02558
Pamela Chan Wong Shui	9,002	1,675	—	—	—	—	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	—	—	—	—	3,350	0.00006
Lucia Li Li Ka-lai	—	1,614 (Note 3)	2,215 (Note 3)	—	—	—	3,829	0.00007
Ingrid Yeung Ho Poi-yan	1,116	—	—	—	—	—	1,116	0.00002
Morris Cheung Siu-wa	14,098	—	—	—	334,500	28,800	377,398	0.00644
Jacob Kam Chak-pui	2,283	—	—	—	659,500	79,650	741,433	0.01266
Stephen Law Cheuk-kin	—	—	—	—	196,000	74,300	270,300	0.00461

Member of the Board and/or the Executive Directorate	Number of Shares held				Number of Share Options	Number of Share Awards	Total interests	Percentage of aggregate interests to total number of voting Shares in issue
	Personal* interests	Family† interests	Other interests	Corporate interests	Personal* interests	Personal* interests		
Gillian Elizabeth Meller	—	—	—	—	497,500	74,550	572,050	0.00977
David Tang Chi-fai	633	—	—	—	454,000	76,050	530,683	0.00906
Philco Wong Nai-keung	—	—	—	—	187,500	79,300	266,800	0.00455
Jeny Yeung Mei-chun	78,400	—	—	—	478,000	76,950	633,350	0.01081

Notes

1. The 70,000 Shares were indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse was also a beneficiary.
2. The 23,000 Shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr. Lincoln Leong Kwok-kuen.
3. The 1,614 Shares were held by Mrs. Lucia Li Li Ka-lai's spouse and 2,215 Shares were jointly held by Mrs. Li and her spouse.
4. As at the Latest Practicable Date, Dr. Raymond Ch'ien Kuo-fung was a member of the Board and Chairman of the Company (up to and including 31 December 2015). Accordingly, his details are included in the above table.

* Interests as beneficial owner.

† Interests of spouse or child under 18 as beneficial owner.

Save as disclosed above, as at the Latest Practicable Date:

- A none of the Directors had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and
- B no Director nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, no Director was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

B. *Substantial Shareholder*

As at the Latest Practicable Date, so far as is known to the Directors, the following person had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of all the Company's voting shares in issue:

Shareholder	Number of Shares	Approximate Voting Power
FSI (on trust for Government) ⁽¹⁾	4,434,552,207	75.7%

Note:

(1) *The FSI holds these Shares on trust for Government. This Shareholding does not include the Shareholding of the Exchange Fund nor the Shareholding of any Close Associate or Associate of the FSI or Government.*

The Company has been informed by the Hong Kong Monetary Authority that, as at the Latest Practicable Date, approximately 0.51% of the Shares (not included in the FSI's Shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary. As further detailed in the paragraph headed "Connected Transactions and Continuing Connected Transactions" in Appendix I, the FSI, Government, their Close Associates and Associates and the Exchange Fund will be required to abstain from voting with respect to the Resolution.

6. DETAILS OF COMPANY SECRETARY

The Company Secretary of the Company is Ms. Gillian Elizabeth Meller, whose biographical details are disclosed on the Company's website set out below:
(http://www.mtr.com.hk/en/corporate/investor/governance.html#Senior_Management_Team).

7. EXPERTS' QUALIFICATIONS AND INTERESTS

Name of Expert	Qualification	Date of Report/ Letter/Statement (where relevant)
Anglo Chinese Corporate Finance, Limited	Licensed under the SFO to conduct Type 6 (advising on corporate finance) activities	7 January 2016
Battersby Kingsfield Limited	ISO accredited 9001:2008 in quantity surveying, commercial and contract management, project management and dispute resolution	28 November 2015
EC Harris (Hong Kong) Limited	Global design consultants	23 December 2015
Professor Dr. Bent Flyvbjerg	PhD, Dr. Techn, Dr. Scient.	28 November 2015
Dr. Kao, Tsung-chung	PhD, P.E.	28 November 2015
KPMG	Certified Public Accountants	7 January 2016

None of the experts listed above has any shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

8. NO INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or the experts listed in section 7 above ("Experts' Qualifications and Interests") had any direct or indirect interest in any assets which have been, since 31 December 2014, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to the Company or any other member of the Group, or were proposed to be acquired or disposed of by or leased to the Company or any other member of the Group.

9. CONSENTS

Each of the experts listed in section 7 above ("Experts' Qualifications and Interests") has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or statement (where relevant) and/or references to its name in the form and context in which they respectively appear.

Apart from the letter from the IFA and the letter from KPMG, none of the reports/letters/statements (where relevant) of the other experts listed in section 7 above ("Experts' Qualifications and Interests") was made specifically for incorporation in this Circular.

10. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Board was not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statement of the Group were made up.

11. MATERIAL CONTRACTS

Except as otherwise stated (or incorporated by reference) in this Circular, no agreement (not being a contract entered into in the ordinary course of business) has been entered into by the Company within the two years immediately preceding the Latest Practicable Date that is, or may be, material.

12. PARTICULARS OF ANY MATERIAL LITIGATION OR CLAIMS

- (i) The Company has lodged objections and appeals relating to the rates and Government rent assessments made by the Commissioner of Rating and Valuation in respect of the operational system and advertising, commercial telecommunications tenements and various development sites, which are pending.
- (ii) Except as stated in (i) above, as at the Latest Practicable Date, neither the Company nor any other member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any other members of the Group.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's office at MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong up to and including the date of the General Meeting:

- (i) the articles of association of the Company;
- (ii) the letter from the Board, the text of which is contained on pages 19 to 38 (inclusive) of this Circular;
- (iii) the letter from the Independent Board Committee, the text of which is contained on pages 39 to 40 (inclusive) of the Circular;
- (iv) the letter from the Independent Financial Adviser, the text of which is contained on pages 41 to 59 (inclusive) of this Circular;
- (v) the annual reports including the audited consolidated financial statements of the Company for each of the years ended 31 December 2012, 2013 and 2014;

- (vi) the interim report of the Company including the unaudited interim financial report for the six months ended 30 June 2015;
- (vii) the report from KPMG in respect of the unaudited pro forma financial information, text of which is set out in section C of Appendix III to this Circular;
- (viii) the statements made or approved by Battersby Kingsfield Limited, Professor Dr. Bent Flyvbjerg and Dr. Kao, Tsung-chung referred to in section 7 above (“Experts’ Qualifications and Interests”);
- (ix) the report from EC Harris (Hong Kong) Limited referred to in section 7 above (“Experts’ Qualifications and Interests”);
- (x) the written consents referred to in the paragraph headed “Consents” in this appendix;
- (xi) the XRL Agreement;
- (xii) EA1; and
- (xiii) EA2.

14. LANGUAGE

This Circular has been printed in English and Chinese. In the event of any inconsistency, the English language text of this Circular shall prevail over the Chinese language text.

NOTICE OF GENERAL MEETING



MTR CORPORATION LIMITED 香港鐵路有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 66)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of the Shareholders of MTR Corporation Limited (the “**Company**”) will be held at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Hong Kong on 1 February 2016 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, the following resolution as an ordinary resolution. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the Circular of the Company dated 7 January 2016:

ORDINARY RESOLUTION

“That for the purposes of implementing the XRL Arrangements, the XRL Agreement be and is hereby approved, confirmed and ratified; the Special Dividend be and is hereby declared and shall be payable, following satisfaction of the conditions contained in the XRL Agreement, in the manner and on the dates determined by the Board; and that the Chief Executive Officer of the Company or any two members of the Board or any two members of the Executive Directorate of the Company be and is/are hereby authorised to do all such further acts and things, agree such amendments or modifications and execute such further documents and deeds (and if necessary apply the common seal of the Company thereto) and take all steps which in his/her opinion may be necessary, desirable and expedient to implement and/or give effect to the terms of the XRL Agreement and the XRL Arrangements and the transactions contemplated thereunder.”

By order of the Board
Gillian Elizabeth Meller
Company Secretary

Hong Kong, 7 January 2016

As at the date of this notice:

Members of the Board: Professor Frederick Ma Si-hang (*Chairman*)**, Lincoln Leong Kwok-kuen (*Chief Executive Officer*), Pamela Chan Wong Shui*, Dr. Dorothy Chan Yuen Tak-fai*, Vincent Cheng Hoi-chuen*, Dr. Eddy Fong Ching*, Edward Ho Sing-tin*, James Kwan Yuk-choi*, Lau Ping-cheung, Kaizer*, Lucia Li Li Ka-lai*, Alasdair George Morrison*, Ng Leung-sing*, Abraham Shek Lai-him*, Benjamin Tang Kwok-bun*, Dr. Allan Wong Chi-yun*,

NOTICE OF GENERAL MEETING

Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)**, Permanent Secretary for Development (Works) (Hon Chi-keung)** and Commissioner for Transport (Ingrid Yeung Ho Poi-yan)**

Members of the Executive Directorate: Lincoln Leong Kwok-kuen, Morris Cheung Siu-wa, Jacob Kam Chak-pui, Stephen Law Cheuk-kin, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai, Philco Wong Nai-keung and Jeny Yeung Mei-chun

* independent non-executive Directors

** non-executive Directors

Registered Office: MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong

Notes:

- 1 A member entitled to attend and vote at the General Meeting convened by the above notice or its adjourned meeting (as the case may be) is entitled to appoint proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- 2 To be valid, a Proxy Form must be completed and delivered to the Company's registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 11:00 a.m. on 29 January 2016 (being at least 48 hours before the General Meeting or adjourned meeting thereof (or 24 hours before a poll is taken, if the poll is taken more than 48 hours after it was demanded) and taking no account of any part of a day that is a public holiday (including a Sunday)).
- 3 If a Proxy Form is signed by an attorney, the power of attorney or other authority relied on to sign it (or a copy which has been certified by a notary or an office copy) must be delivered to the Company's registrar with the Proxy Form, except that a power of attorney which has already been registered with the Company need not be so delivered. Proxy Forms sent electronically or by any other data transmission process will not be accepted. **Completion and delivery of a Proxy Form will not preclude a member from attending in person and voting at the General Meeting or any adjournment thereof should he so wish.**
- 4 At the General Meeting, the Chairman of the General Meeting will exercise his power under Article 71 of the Company's Articles of Association to put the Resolution to the vote by way of a poll. The poll result will be published on the website of the Company (www.mtr.com.hk) and the website of the Stock Exchange (www.hkexnews.hk) as soon as possible in accordance with the Listing Rules.
- 5 Subject to the satisfaction of the conditions contained in the XRL Agreement, the Board will determine the Book Closure Dates, the Record Dates and the Dividend Payment Dates and the Company will announce such dates in due course.
- 6 The register of members of the Company will be closed from 9:00 a.m. on 28 January 2016 until 4:30 p.m. on 1 February 2016 (both days inclusive), during which no transfer of shares in the Company will be effected, for the determination of entitlements to attend and vote at the General Meeting. In order to qualify for attending the General Meeting, all transfer documents, accompanied by the relevant Share certificates, have to be lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 27 January 2016.
- 7 The translation into the Chinese language of the above notice is for information only and, in the case of any inconsistency between the Chinese translation and the English text of this notice, the English text shall prevail.