

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



MTR CORPORATION LIMITED

香港鐵路有限公司

(the “**Company**”)

(Incorporated in Hong Kong with limited liability)

(Stock code: 66)

INSIDE INFORMATION

THE SHATIN TO CENTRAL LINK

COST-TO-COMPLETE

PROJECT MANAGEMENT COST

Cost-to-Complete the Shatin to Central Link Project

The Company has completed its further review and revalidation of the cost-to-complete the Shatin to Central Link project and has notified Government of the Company’s latest estimate of the cost-to-complete being HK\$82,999.3 million (including additional project management cost for the Company, being the cost to the Company of carrying out its remaining project management responsibilities under the relevant entrustment agreement, but excluding costs (including project management cost) related to the Hung Hom incidents in respect of which the Company has already made a provision of HK\$2 billion in its consolidated profit and loss account for the year ended 31 December 2019).

This represents an increase of HK\$12,172.3 million from the original estimate of HK\$70,827 million, which is less than the previously estimated increase of HK\$16,501 million which the Company announced in December 2017. The Company has been able to reduce its estimate of the cost-to-complete from its December 2017 estimate through strong cost control and in recognition of the fact that given that the Shatin to Central Link project has continued to progress since December 2017, allowing a greater degree of certainty in relation to costs.

Project Management Cost

According to the relevant entrustment agreement, the Company is responsible for carrying out or procuring the execution of the works specified in the existing entrustment agreements relating to the Shatin to Central Link project and Government, as the owner of the Shatin to Central Link, is responsible for bearing and financing the full amount of the total cost of such activities and for paying to the Company a project management cost of HK\$7,893 million in accordance with an agreed payment schedule. As at the date of this announcement, the

Company has received payments of the project management cost from Government in accordance with the payment schedule set out in the relevant entrustment agreement.

As previously disclosed by the Company, the programme for the delivery of the Shatin to Central Link project has been significantly impacted by certain key external events, including the discovery of archaeological relics in the Sung Wong Toi Station area, requests for additional scope, and the late or incomplete handover by third parties of construction sites to the Company. Not only do these matters increase the cost of the works they also increase the cost to the Company of carrying out its project management responsibilities under the relevant entrustment agreement, this increase estimated to be around HK\$1,371.0 million. Regular updates have been provided to, and discussions have been held with, Government on the delays to the programme for the delivery of the Shatin to Central Link project and the associated impacts on the cost-to-complete including the project management cost.

Given such significant modifications to the project programme and the associated increase in the project management costs of the Company and following the Company's receipt of independent expert advice, the Company believes that it is entitled (in accordance with the terms of the relevant entrustment agreement) to an increase in the project management cost, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the relevant entrustment agreement. Accordingly, as stated above, the Company has included an additional amount of project management cost of HK\$1,371.0 million in the revised estimate of the cost-to-complete notified to Government, reflecting the additional scope of work and programme extension.

Government has advised the Company that: (i) Government considers there has been no material modification in respect of the Shatin to Central Link project and, therefore, Government disagrees to the inclusion of any additional amount of project management cost in the cost-to-complete; and (ii) in Government's applications to the Legislative Council for additional funding for the Shatin to Central Link project, Government will not make any provision for any additional amount of project management cost for the Company.

The Company notes that Government has issued its paper for the first stage of the Legislative Council process for the approval of additional funding for the Shatin to Central Link project and that Government's paper does not include any provision by Government for any additional amount of project management cost for the Company.

The board of directors of the Company is of the view that the Company's entitlement to any additional project management cost should be resolved with Government in accordance with the terms of the relevant entrustment agreement.

Despite the fact that this matter needs to be resolved, the Company will, in the interim, continue to comply with its project management obligations under the relevant entrustment agreement and meet the costs thereof, to allow (subject to the availability of additional funding for the cost of the project works) the Shatin to Central Link project to progress in accordance with the latest programme.

Given the uncertainty and potential financial impact to the Company in connection with the additional amount of project management cost, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account for an amount of up to HK\$1,371.0 million to reflect the additional cost to the Company of completing its remaining project management

responsibilities.

General

The eventual outcome regarding the project management cost and the timing thereof, remain highly uncertain at the current stage.

The price of the Company's shares may be subject to fluctuations in the interim. Investors should exercise caution in their dealings in the securities of the Company.

The Company will make further announcement(s) at the appropriate time(s).

The Directors who were appointed by Government pursuant to section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) or who hold a position in Government were not present at the relevant board meetings at which the views of the board of directors of the Company, as described in this announcement, were reached.

This announcement is made pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

A. Cost-to-Complete the Shatin to Central Link Project

Latest estimate of CTC

The Company has previously disclosed that:

- (i) it had completed a detailed review of the estimated CTC for the main construction works under EA3 and submitted its estimate to Government on 5 December 2017. Taking into account a number of factors, including issues such as archaeological finds, requests for additional scope and late or incomplete handover of construction sites, the Company had, at that time, increased its estimate by HK\$16,501 million from HK\$70,827 million to HK\$87,328 million (including an increase in the Project Management Cost), which was subject to agreement and approval processes;
- (ii) since submission to Government of the estimate referred to above, the Company has been liaising with Government to facilitate their review and verification process; and
- (iii) the Company intended to carry out a further review and revalidation of the CTC within 2019.

The Company has completed its further review and revalidation of the CTC and, on 10 February 2020, notified Government, in accordance with the terms of EA3, of its latest estimate of the CTC, being HK\$82,999.3 million (including additional Project Management Cost for the Company, being the cost to the Company of carrying out its remaining project management responsibilities under EA3, but excluding the

Hung Hom Incidents Related Costs in respect of which the Company has already made a provision of HK\$2 billion in its consolidated profit and loss account for the year ended 31 December 2019).

This represents an increase of HK\$12,172.3 million from the original estimate of HK\$70,827 million, which is less than the previously estimated increase of HK\$16,501 million which the Company announced in December 2017. The Company has been able to reduce its estimate of the CTC from the amount estimated in December 2017 through strong cost control and in recognition of the fact that given that the SCL Project has continued to progress since December 2017, some of the risks included in the previous estimate have significantly reduced and some works contracts are complete, allowing a greater degree of certainty in relation to costs.

In accordance with the terms of EA3, Government will now seek the approval of LegCo for additional funding required for the SCL Project so that the SCL can be completed. For the avoidance of doubt, the amount sought by Government will exclude the Hung Hom Incidents Related Costs and (as notified by Government and reflected its paper for the first stage of the LegCo process for the approval of additional funding for the SCL Project) any additional Project Management Cost for the Company.

B. Project Management Cost

According to the relevant entrustment agreement, the Company is responsible for carrying out or procuring the execution of the works specified in the existing entrustment agreements relating to the SCL Project and Government, as the owner of the SCL, is responsible for bearing and financing the full amount of the total cost of such activities and for paying to the Company a Project Management Cost of HK\$7,893 million in accordance with an agreed payment schedule. As at the date of this announcement, the Company has received payments of the Project Management Cost from Government in accordance with the payment schedule set out in the relevant SCL Entrustment Agreement.

As previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events, including the discovery of archaeological relics in the Sung Wong Toi Station area, requests for additional scope, and the late or incomplete handover by third parties of construction sites to the Company. Not only do these matters increase the cost of the works they also increase the cost to the Company of carrying out its project management responsibilities under the relevant SCL Entrustment Agreement, this increase estimated to be around HK\$1,371.0 million. Regular updates have been provided to, and discussions have been held with, Government on the delays to the programme for the delivery of the SCL Project and the associated impacts on the CTC including the Project Management Cost.

Given such significant modifications to the project programme and the associated increase in the project management costs of the Company and following the Company's receipt of independent expert advice, the Company believes that it is entitled (in accordance with the terms of EA3) to an increase in the Project Management Cost, to be agreed by way of good faith negotiations or otherwise

determined in accordance with the provisions of EA3. Accordingly, as stated above, the Company has included an additional amount of Project Management Cost of HK\$1,371.0 million in the revised estimate of the CTC notified to Government, reflecting the additional scope of work and programme extension.

Government has advised the Company that: (i) Government considers there has been no material modification in respect of the SCL Project and, therefore, Government disagrees to the inclusion of any additional amount of Project Management Cost in the CTC; and (ii) in Government's applications to the LegCo for additional funding for the SCL Project, Government will not make any provision for any additional Project Management Cost for the Company.

The Company notes that Government has issued its paper for the first stage of the LegCo process for the approval of additional funding for the SCL Project and that Government's paper does not include any provision by Government for any additional amount of Project Management Cost for the Company.

The Board is of the view that the Company's entitlement to any additional Project Management Cost should be resolved with Government in accordance with the terms of EA3.

Despite the fact that this matter needs to be resolved, the Company will, in the interim, continue to comply with its project management obligations under EA3 and meet the costs thereof, to allow (subject to the availability of additional funding for the cost of the project works) the SCL Project to progress in accordance with the latest programme.

Given the uncertainty and potential financial impact to the Company in connection with the additional amount of Project Management Cost, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account for an amount of up to HK\$1,371.0 million to reflect the additional cost to the Company of completing its remaining project management responsibilities.

C. General

The Company continues to seek an overall settlement with Government in relation to the Hung Hom Incidents and their respective funding obligations in relation thereto. However, there is no assurance that the parties will ultimately reach an overall settlement. As previously disclosed, if no overall settlement is reached between the Company and Government within a reasonable period, the provisions of EA3 shall continue to apply and the responsibility for the funding of such costs shall be determined in accordance with EA3.

The eventual outcome regarding the Project Management Cost and the timing thereof remain highly uncertain at the current stage. There is no assurance that the parties will reach any agreement in relation to the Project Management Cost.

The price of the Company's shares may be subject to fluctuations in the interim. Investors should exercise caution in their dealings in the securities of the Company.

The Company will make further announcement(s) at the appropriate time(s).

The Directors who were appointed by Government pursuant to section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) or who hold a position in Government were not present at the relevant Board meetings at which the views of the Board, as described in this announcement, were reached.

This announcement is made pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

D. Definitions

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

“Board”	means the board of Directors of the Company.
“CTC”	means the cost-to-complete the SCL Project.
“Company”	means MTR Corporation Limited.
“Director”	means a member of the Board.
“EA3”	means the entrustment agreement for the construction and commissioning of the SCL entered into between Government and the Company on 29 May 2012.
“Government”	means the Government of Hong Kong.
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China.
“Hung Hom Incidents”	means the incidents relating to Hung Hom Station which are more particularly described in the Company’s announcement dated 18 July 2019.
“Hung Hom Incidents Related Costs”	means certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for Phased Opening, as more particularly described in the Company’s announcement dated 18 July 2019).
“LegCo”	means the Legislative Council of Hong Kong.
“Phased Opening”	means the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station

“Project Management Cost”	means the amount paid or payable by Government to the Company pursuant to EA3 and referred to therein as the “Project Management Cost” (as the same is increased in accordance with EA3).
“SCL”	means the Shatin to Central Link.
“SCL Project”	means the project for the construction of the SCL.
“SCL Entrustment Agreement(s)”	means: (i) the entrustment agreement for the design of, and site investigation and procurement activities in relation to, the SCL entered into between Government and the Company on 24 November 2008; (ii) the entrustment agreement for advance works relating to the SCL entered into between Government and the Company on 17 May 2011; and (iii) EA3.

By Order of the Board
Gillian Elizabeth Meller
Company Secretary

Hong Kong, 28 February 2020

As at the date of this announcement:

Members of the Board: Rex Auyeung Pak-kuen (Chairman)**, Dr Jacob Kam Chak-pui (Chief Executive Officer), Andrew Clifford Winawer Brandler*, Walter Chan Kar-lok*, Dr Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Dr Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Rose Lee Wai-mun*, Lucia Li Li Ka-lai*, Jimmy Ng Wing-ka*, Benjamin Tang Kwok-bun*, Dr Allan Wong Chi-yun*, Johannes Zhou Yuan*, James Henry Lau Jr (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Frank Chan Fan)**, Permanent Secretary for Development (Works) (Lam Sai-hung)** and Commissioner for Transport (Mable Chan)**

Members of the Executive Directorate: Dr Jacob Kam Chak-pui, Adi Lau Tin-shing, Roger Francis Bayliss, Margaret Cheng Wai-ching, Dr Peter Ronald Ewen, Herbert Hui Leung-wah, Dr Tony Lee Kar-yun, Gillian Elizabeth Meller, David Tang Chi-fai and Jeny Yeung Mei-chun

* *independent non-executive Director*

** *non-executive Director*

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