

Chairman's letter to Shareholders on Merger

27 June 2006

Dear Shareholders,

Proposed Rail Merger

I would like to update you on the progress of the proposed merger with the Kowloon-Canton Railway Corporation ("KCRC") after the signing of the non-binding Confidential Memorandum of Understanding ("CMoU") with the Government of the Hong Kong Special Administrative Region ("Government") on 11 April 2006. As we had announced, the proposed transaction calls for a merger of the operations of MTR and KCRC railway businesses together with acquisition of properties, with the enlarged company retaining the English name of MTR Corporation.

Under the terms of this transaction, MTR will enter into a 50-year service concession whereby the Company has exclusive rights to operate KCRC's rail and rail-related businesses; this 50-year concession will be co-terminous with MTR's Franchise and can be extended. Under this service concession, MTR will make an upfront payment of \$4.25 billion, pay an Annual Fixed Payment of \$750 million and an Annual Variable Payment equivalent to a percentage of KCRC's rail and rail-related business revenues, ranging from 0-35%. Also, as part of the proposed transaction, the Company will acquire property development rights over eight sites, eight investment properties and certain property management rights for \$7.79 billion.

The proposed merger represents an important development in railway transportation in Hong Kong, providing rail passengers with reduced fares, greater convenience and a transparent and objective fare adjustment mechanism. This proposed transaction also marks an important milestone for MTR in the following ways.

Firstly, the proposed transaction offers significant growth opportunities for MTR's railway business as well as providing us with a platform for further network expansion and patronage growth upon the commencement of operations of KCRC's committed new railway extensions such as Lok Ma Chau Spur Line and Kowloon Southern Link.

Secondly, the proposed transaction further reinforces our successful Rail and Property model through the acquisition of rights over 12.6 million sq ft of development properties, 762,000 sq ft of investment properties as well as property management rights.

Finally, the proposed transaction is structured to provide the benefits of a merger but also mitigates downside risks and reduces initial funding burden for MTR.

The proposed transaction is subject to the approvals of both the Hong Kong Legislative Council ("Legco") and of our independent shareholders. Hence Government will introduce a Merger Bill to Legco, and if such bill is passed, an Extraordinary General Meeting will be called thereafter for independent shareholders to vote on the proposed transaction. As I have noted before, an Independent Committee of the Board of MTR has been formed to advise independent shareholders on the proposed transaction - the members of this committee are Mr. Edward Ho Sing Tin, Professor Cheung Yau Kai, Ms Christine Fang Meng Sang, Mr. Lo Chung Hing, Mr T. Brian Stevenson and Mr. David Gordon Eldon. The Independent Board Committee itself will at a later stage, appoint and be advised on this transaction by an Independent Financial Adviser. At the time of signing of the CMoU, we had indicated that the Legco and independent shareholder approval processes could take about a year.

Once again, we are excited about this transaction as it brings about compelling benefits to MTR. We will update you regularly on the progress of this proposed transaction.

Sincerely,

Dr. Raymond Ch'ien Kuo Fung

Chairman

MTR Corporation Limited