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**MTR Corporation Limited**  
**(地鐵有限公司)**

(Incorporated in Hong Kong with limited liability)  
(stock code: 66)

*Board of Directors:*

Dr. Raymond Ch'ien Kuo-fung (*Chairman*)\*\*  
Chow Chung-kong (*Chief Executive Officer*)  
Professor Cheung Yau-kai\*  
David Gordon Eldon\*  
T. Brian Stevenson\*  
Edward Ho Sing-tin\*  
Lo Chung-hing\*  
Christine Fang Meng-sang\*  
Frederick Ma Si-hang (*Secretary for Financial Services and the Treasury*)\*\*  
Secretary for the Environment, Transport and Works, Dr. Sarah Liao Sau-tung\*\*  
Commissioner for Transport, Robert Charles Law Footman\*\*

*Registered office:*

MTR Tower  
Telford Plaza  
Kowloon Bay  
Hong Kong

13th September, 2004

\* *independent non-executive directors*

\*\* *non-executive directors*

To: **the shareholders (the "Shareholders") of MTR Corporation Limited (地鐵有限公司) (the "Company") and the option holders under the Pre-Global Offering Share Option Scheme and the New Joiners Share Option Scheme of the Company (for information only)**

Dear Sir or Madam,

**SCRIP DIVIDEND SCHEME (THE "SCHEME")**

**1. INTRODUCTION**

The Board of Directors is pleased to offer Shareholders with Hong Kong addresses and whose names appeared on the register of members of the Company on 3rd September, 2004 (the "Record Date") (the "Qualifying Shareholders") the opportunity to elect to receive extra shares of HK\$1.00 each in the Company credited as fully paid (the "New Shares") instead of the whole or part of the cash dividend of HK\$0.14 per share in the Company (each, a "Share") for the six month period ended 30th June, 2004 (the "2004 Interim Dividend").

**2. BACKGROUND**

**2004 Interim Dividend**

On 3rd August, 2004 the Board of Directors announced the Company's unaudited interim results for the six month period ended 30th June, 2004 and the 2004 Interim Dividend of HK\$0.14 per Share to be payable on or about 28th October, 2004 to Shareholders whose names appeared on the register of members of the Company as at the close of business on the Record Date. The register of members was closed from 30th August, 2004 to 3rd September, 2004 (both dates inclusive). To rank for the 2004 Interim Dividend, all completed transfer forms, accompanied by the relevant share certificates, had to be lodged with the Company's Registrar for registration not later than 4:00 p.m. on 27th August, 2004.

**The Scheme**

At the Annual General Meeting of the Company held on 17th May, 2001, the Shareholders passed a resolution authorising the Board to offer Shareholders the right to choose to receive New Shares instead of the whole or part of their cash dividend in respect of some or all of the future dividends (including any final and/or interim dividends) which may be declared or paid in the period up to and including the Annual General Meeting of the Company which is held in the fifth year after the passing of the resolution.

The Board of Directors is offering Qualifying Shareholders the right to choose to receive New Shares instead of the whole or part of their cash dividend for the six month period ended 30th June, 2004. In addition, the Board is offering Qualifying Shareholders the right to choose to receive New Shares instead of cash for future dividends declared after the 2004 Interim Dividend (including any final and/or interim dividends) if a share alternative is available, until such Shareholders provide the Company's Registrar with notice in writing that they no longer wish to receive New Shares.

#### **Undertaking by The Financial Secretary Incorporated**

As at 30th August, 2004 (being the latest practicable date before the printing of this document), The Financial Secretary Incorporated (the "FSI") was the registered holder of 4,092,836,126 Shares, representing approximately 76 per cent. of the issued share capital of the Company. The FSI holds these Shares in trust on behalf of the Government of the Hong Kong Special Administrative Region (the "Government"). The FSI has agreed that, in respect of the 2004 Interim Dividend and any dividends declared in respect of each of the financial years ending 31st December, 2006, the FSI will elect to receive all or part of its entitlement to dividends in the form of New Shares under any scrip dividend election to be offered by the Company to its Shareholders to the extent necessary to ensure that a maximum of 50 per cent. of the total dividend paid by the Company in respect of the relevant financial year will be paid in the form of cash. In respect of the final dividend for the year ended 31st December, 2003, the FSI elected to receive, and received, 56,405,218 New Shares (being approximately 45 per cent. of the total dividend paid by the Company) by way of a scrip dividend election.

On 24th July, 2002 the Company and the Government entered into a project agreement (the "Project Agreement") relating to the Disneyland Resort Line (previously known as Penny's Bay Rail Link), a railway link and related services and facilities to be constructed by the Company to service the Hong Kong Disneyland.

In the Project Agreement, the Government agreed to ensure that, in order to provide financial support in respect of the Disneyland Resort Line project, any claim for or entitlement to (as against the Company) such amount of dividends representing the Government's beneficial entitlement to cash dividends in respect of the interim and final dividends payable for the financial year ended 31st December, 2002 and (to the extent necessary) the interim and final dividends payable for the financial years ending 31st December, 2003 and 2004 and for subsequent financial years, as is equivalent to the net present value amount (as at the end of 2001) of HK\$798 million, calculated using a discount rate of 11.25% (as more particularly described in the Project Agreement), will be waived (as against the Company). Further details of this waiver are set out in the Company's announcement dated 9th July, 2002. Such financial support has been settled by the Government through waivers of its entitlement to cash dividends in respect of its shareholding commencing from the financial year ended 31st December, 2002 and, following Government's waiver of HK\$37 million in respect of the final dividend for the financial year ended 31st December, 2003, its obligations in respect of such financial support have been fulfilled.

### **3. DETAILS OF THE CHOICES IN RESPECT OF THE 2004 INTERIM DIVIDEND**

Qualifying Shareholders have the following alternative choices in respect of the 2004 Interim Dividend:

- (a) cash of HK\$0.14 per Share; or
- (b) an allotment of New Shares (the number of which is determined as explained below); or
- (c) partly cash and partly New Shares.

A Qualifying Shareholder who elects to receive New Shares instead of some or all of his/her cash dividend, will be entitled to Shares whose total Relevant Value (see below) is as near as possible to the cash dividend he/she would have received in respect of the Shares for which he/she has opted to receive New Shares. The Relevant Value of a Share is the average value of the Company's Shares for the five dealing days starting from, and including, 26th August, 2004 (being the day when the Shares were first quoted ex dividend) (the "Relevant Dealing Days"). As at 30th August, 2004 (being the latest practicable date before the printing of this document), the Relevant Value could not be calculated because the Relevant Dealing Days had not yet elapsed. **On 22nd September, 2004 the Company will issue a press announcement stating the Relevant Value and setting out the basis of allotment of New Shares.**

The number of New Shares to be received by each Qualifying Shareholder pursuant to his/her election will be rounded down to the nearest whole number of the New Shares. Fractional entitlements to New Shares will be disregarded and the benefit thereof will accrue to the Company. The New Shares issued in respect of the 2004 Interim Dividend will, when they are issued, rank *pari passu* in all respects with the existing issued Shares of the Company except that such New Shares themselves will not rank for the 2004 Interim Dividend.

### **4. ACTION TO BE TAKEN**

#### **If you have already given standing instructions to receive only New Shares under the Scheme**

**No Election Form is being sent to Shareholders who have already given standing instructions to receive only New Shares under the Scheme.** If you have already given such standing instructions, you need to take no further action if you wish to receive only New Shares for the 2004 Interim Dividend. If you have already given standing instructions to receive only New Shares under the Scheme but you wish to receive only cash for the 2004 Interim Dividend and all future final and interim dividends, a letter revoking your standing instructions must be received by the Company's Registrar by 4:00 p.m. on 30th September, 2004. If you have already given standing instructions to receive only New Shares under the Scheme but you wish to receive New Shares in respect of only part of the 2004 Interim Dividend, a letter revoking your standing instructions together with a duly completed Election Form (completed in accordance with section (c) below) must be received by the Company's Registrar by 4:00 p.m. on 30th September, 2004. In order to meet this deadline please make sure you ask the Company's Registrar for an Election Form in time to return it to them by 4:00 p.m. on 30th September, 2004.

**If you have NOT previously given standing instructions to receive New Shares under the Scheme**

**If you have not previously given standing instructions to receive New Shares under the Scheme, an Election Form is enclosed with this document.** Please read carefully the instructions below and the instructions printed on the Election Form.

**(a) To receive only cash dividends**

If you wish to receive only cash for the 2004 Interim Dividend and for future final and interim dividends declared after the 2004 Interim Dividend, you do not need to take any action. Therefore, please DO NOT return the Election Form.

(If you wish to receive only cash for the 2004 Interim Dividend and you wish to elect to receive only New Shares for future final and interim dividends declared after the 2004 Interim Dividend for which a scrip alternative is available, you should enter a tick (✓) in Box D and in Box E of the Election Form and SIGN, DATE and RETURN the Election Form.)

**(b) To receive only scrip dividends for the 2004 Interim Dividend**

If you wish to receive only New Shares for the 2004 Interim Dividend, please just SIGN, DATE and RETURN the Election Form.

(If you wish to receive only New Shares for the 2004 Interim Dividend and you wish to elect to receive only New Shares for future final and interim dividends declared after the 2004 Interim Dividend for which a scrip alternative is available, you should also enter a tick (✓) in Box D of the Election Form.)

**(c) To receive part cash dividends and part scrip dividends for the 2004 Interim Dividend**

If you wish to receive your entitlement to the 2004 Interim Dividend partly in cash and partly in New Shares, please ENTER in Box C of the Election Form the number of Shares which you held on the Record Date for which you require the 2004 Interim Dividend to be paid in New Shares. Then SIGN, DATE and RETURN the Election Form.

**(You cannot complete Box C and enter a tick (✓) in Box E. If you do so, your tick (✓) in Box E will be deemed invalid.** If you sign the Election Form without completing Box C and you do not enter a tick (✓) in Box E of the Election Form, or if you elect to receive New Shares in respect of a greater number of Shares than your registered holding on the Record Date, you will be deemed to have elected to receive only New Shares in respect of ALL the Shares registered in your name on the Record Date. Therefore, you will receive only New Shares for the 2004 Interim Dividend.)

**(d) To receive only scrip dividends for future dividends declared after the 2004 Interim Dividend for which a scrip alternative is available**

If you wish to receive, in respect of ALL Shares registered in your name on the relevant record date(s), only New Shares instead of cash for future final and interim dividends declared after the 2004 Interim Dividend for which a scrip alternative is available, please ENTER a tick (✓) in Box D of the Election Form. If you enter a tick (✓) in Box D and you wish to receive only cash for the 2004 Interim Dividend, please also ENTER a tick (✓) in Box E of the Election Form. Then SIGN, DATE and RETURN the Election Form.

(You cannot choose to receive your future dividend entitlements partly in cash and partly in New Shares. Therefore, if you enter a tick (✓) in Box D of the Election Form, unless and until you cancel such election by notice in writing to the Company's Registrar, you will receive only New Shares for future final and interim dividends declared after the 2004 Interim Dividend for which a scrip alternative is available for all of the Shares registered in your name on the relevant record date(s), without having to complete any further Election Forms. **You cannot enter a tick (✓) in Box E and complete Box C. If you do so, your tick (✓) in Box E will be deemed invalid.**)

**How and when to return your Election Form**

If you need to return an Election Form, you should return it to the Company's Registrar, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong so that it is received by the Company's Registrar **not later than 4.00 p.m. on 30th September, 2004**. If the Company's Registrar does not receive your completed and signed Election Form **by 4:00 p.m. on 30th September, 2004**, you will receive the whole of your 2004 Interim Dividend in cash and any election which you may have made in such Election Form to receive New Shares for future dividends declared after the 2004 Interim Dividend for which a scrip alternative is available will be of no effect.

**No acknowledgement of receipt of the Election Form will be issued.**

**No elections in respect of the 2004 Interim Dividend may, after the relevant Election Forms are signed and returned to the Company's Registrar, be in any way withdrawn, revoked, superseded or altered.**

**5. CONDITIONS OF THE SCHEME**

The Scheme described in this document is conditional upon the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the New Shares to be issued in respect of the 2004 Interim Dividend.

If this condition is not satisfied, the Scheme described in this document will not become effective and the Election Forms will be void. The 2004 Interim Dividend will then be paid wholly in cash.

## 6. SHAREHOLDERS RESIDENT OUTSIDE HONG KONG

This document will not be registered under any securities legislation of any jurisdiction outside Hong Kong. Therefore, no Shareholders with addresses, as shown on the register of members of the Company on the Record Date, that are outside Hong Kong will be permitted to participate in the Scheme and they will receive the 2004 Interim Dividend wholly in cash. These Shareholders are not "Qualifying Shareholders" for the purposes of the Scheme. No Election Form is being sent to such Shareholders.

## 7. LISTING AND CLEARING AND SETTLEMENT

Application has been made to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, the New Shares.

Subject to the granting of listing of, and permission to deal in, New Shares issued pursuant to the Scheme on the Hong Kong Stock Exchange, such New Shares will be accepted as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS"). Shareholders should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests. All activities under CCASS are subject to the general rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Company's Shares are listed on the Hong Kong Stock Exchange. The Company's debt issuance programme is listed on the Hong Kong Stock Exchange and on the London Stock Exchange. The Company's floating rate notes due 2005 issued under the debt issuance programme are listed on the London Stock Exchange. Fixed rate notes due 2014 issued by MTR Corporation (C.I.) Limited, a wholly-owned subsidiary of the Company, under the debt issuance programme and guaranteed by the Company are listed on the London Stock Exchange. The Company's US\$ global notes due 2009 are listed on the Hong Kong Stock Exchange and on the Luxembourg Stock Exchange. The Company's US\$ global notes due 2010 are listed on the Luxembourg Stock Exchange. There is no other stock exchange on which the Company's Shares or debt securities are listed or dealt in or on which listing or permission to deal is being or proposed to be sought at this time.

## 8. GENERAL

New Shares issued to a Qualifying Shareholder pursuant to an election to receive some or all of their 2004 Interim Dividend in New Shares may be allocated in odd lots (of fewer than a board lot of 500 Shares). No special dealing arrangements will be put in place by the Company to facilitate the trading or disposal of New Shares issued in odd lots. Qualifying Shareholders should be aware that odd lots usually trade at a discount to the price of board lots.

Whether or not it is to your advantage to elect to receive New Shares instead of cash, in whole or in part, in respect of the 2004 Interim Dividend and/or in respect of future dividends declared after the 2004 Interim Dividend (including final and/or interim dividends) will depend upon your own individual circumstances and the decision in this regard, and all effects resulting therefrom must be solely your responsibility. **If you are in any doubt as to what to do, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.** Shareholders who are trustees are recommended to take professional advice as to whether an election to receive New Shares is within their powers and as to the effect of such election having regard to the terms of the relevant trust instrument.

## 9. TIMETABLE

Given below is a summary of the events in relation to the Scheme in the form of a timetable.

| Event  | Date/Time                          |
|--|------------------------------------|
| Record Date  | 3rd September, 2004,<br>4:00 p.m.  |
| Press Announcement stating Relevant Value and setting out the basis of allotment   | 22nd September, 2004               |
| Latest time for return of Election Form (and, if applicable, return of letter revoking any previous standing instructions to receive <u>only</u> New Shares for the 2004 Interim Dividend and all future final and interim dividends) by Qualifying Shareholders | 30th September, 2004,<br>4:00 p.m. |
| Despatch of cheques for cash dividends and definitive certificates for New Shares at the risk of recipients  | On or about 28th October, 2004     |

Yours faithfully,  
**Leonard Bryan Turk**  
Secretary

**IF YOU HAVE ANY QUERIES IN RELATION TO THE SCHEME PLEASE CALL THE FOLLOWING TELEPHONE HOT-LINE: 2862 8666.**

*Members of the Board:* Dr. Raymond Ch'ien Kuo-fung (*Chairman*)\*\*, Chow Chung-kong (*Chief Executive Officer*), Professor Cheung Yau-kai\*, David Gordon Eldon\*, T. Brian Stevenson\*, Edward Ho Sing-tin\*, Lo Chung-hing\*, Christine Fang Meng-sang\*, Frederick Ma Si-hang (*Secretary for Financial Services and the Treasury*)\*\*, Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung)\*\* and Commissioner for Transport (Robert Charles Law Footman)\*\*

*Members of the Executive Directorate:* Chow Chung-kong, Russell John Black, William Chan Fu-keung, Philip Gaffney, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen and Leonard Bryan Turk

\* *independent non-executive directors*

\*\* *non-executive directors*