

MTR CORPORATION LIMITED

(地鐵有限公司)

(the "Company")

(Incorporated in Hong Kong with limited liability)

(Stock code: 66)

POSSIBLE MERGER

Further to the Company's announcements dated 24th February, 2004 and 20th August, 2004, the Company wishes to advise that on 16th September, 2004, it, together with KCRC, submitted a joint merger report to the Government on the possible merger between the Company and KCRC. **There is no assurance that the joint merger report or any further discussions between the Company, KCRC and the Government will result in a merger.**

Investors should exercise caution in their dealings of the shares in the Company.

Further to the Company's announcement dated 24th February, 2004 and 20th August, 2004, the Company wishes to advise that on 16th September 2004, it, together with Kowloon-Canton Railway Corporation ("KCRC"), submitted a joint merger report to the Government of the Hong Kong Special Administrative Region (the "Government") on the possible merger between the Company and KCRC.

The joint merger report resulted from discussions between the Company and KCRC conducted on the basis of the five parameters which Government asked the Company and KCRC in February 2004 to use as the framework for discussions.

The five parameters set by the Government were:

- (a) the adoption of a more objective and transparent fare adjustment mechanism;
- (b) abolition of the second boarding charge and review of the fare structure with the objective of reducing fares;
- (c) early resolution of interchange arrangements for rail projects under planning, notably the Shatin-Central Link;
- (d) ensuring job security for frontline staff of both corporations at the time of the merger; and
- (e) provision of seamless interchange arrangements in the long run.

As requested by the Government, the joint merger report includes a preliminary study on the Hong Kong section of the Express Rail Link.

The Company is also discussing with the Government the terms of the possible merger and the process is expected to continue.

The Company has stated previously that if the merger is implemented on acceptable terms, it would be beneficial to all stakeholders as it would provide an integrated regional and urban rail network for the people of Hong Kong with greater efficiency, increased convenience and enhanced connectivity and provide room for fare adjustments.

As stated in the Company's announcement dated 24th February, 2004, any transaction involving the Government will be treated as a connected transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and may also be treated as a transaction subject to Chapter 14 of the Listing Rules. As a connected transaction, any merger between the Company and KCRC will be subject to the approval of independent shareholders.

The Company further notes that the form of any potential merger has not yet been agreed or decided. **There is no assurance that the joint merger report submitted by the Company and KCRC or any further discussions between the Company, KCRC and Government will result in a merger. The share price of the Company may be subject to fluctuations in the interim. Investors should exercise caution in their dealings of the shares in the Company.**

For the avoidance of doubt, this announcement is not an announcement of a proposed or possible offer for the shares in the Company within the meaning of the Code on Takeovers and Mergers.

By Order of the Board
Leonard Bryan Turk
Company Secretary

Hong Kong, 16th September, 2004

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*