

D. NEXT STEPS

Liaison committees will be established, consisting of members from Government, the Company and KCRC, which shall discuss material decisions to be taken by KCRC and the financial impact of such decisions. Upon signing of the definitive transaction documents, KCRC will not implement a material decision without the prior agreement of the Company's members on the relevant liaison committee.

If the discussions between the Company, Government and KCRC are successful, it is expected that the following steps will be taken:

1. Legislation

A bill for the Merger Ordinance will be presented to LegCo.

2. Independent Board Committee and Independent Financial Adviser

In accordance with the Listing Rules, the independent board committee established by the Company (consisting only of independent non-executive directors) will advise shareholders as to whether the terms of the Rail Merger are fair and reasonable and whether the Rail Merger is in the interests of the Company and its shareholders as a whole and to advise shareholders how to vote, taking into account the recommendations of the independent financial adviser, which will be appointed by the Company in due course.

3. Independent shareholders' approval

As stated in the Company's announcements dated 24th February, 2004, 20th August, 2004, 16th September, 2004 and 9th April, 2006, any transaction involving Government will be treated as a connected transaction under Chapter 14A of the Listing Rules and as a notifiable transaction subject to Chapter 14 of the Listing Rules. As any Rail Merger will be subject to the approval of independent shareholders of the Company, an extraordinary general meeting of the Company will be convened at which the Rail Merger will be considered.

4. Transaction documents:

In order to implement the Rail Merger, it is expected that the following agreements would need to be entered into:

- the Service Concession Agreement to document the terms of the Service Concession;
- the Sale and Purchase Agreement to document the terms and conditions of the sale to MergeCo of the Purchased Assets (or any part thereof); and
- the Integrated Operating Agreement to be entered into in relation to the operation of the MergeCo System.

It is expected to take one year or more for the Rail Merger to be completed.

E. GENERAL

The Company has stated previously that if the Rail 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.

At the request of the Company, trading in shares (stock code 66) in, and listed debt securities (stock code 2524) of, the Company on the Stock Exchange was suspended with effect from 10:32 a.m. on 11th April, 2006 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in its shares and listed debt securities with effect from 9:30 a.m. on 12th April, 2006.

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.

F. DEFINITIONS

"Additional Concession Asset"	means any asset purchased by MergeCo to maintain, repair, replace or improve the Concession Assets that is capitalised on MergeCo's balance sheet, to be more particularly defined;
"Additional Concession Payments"	means concession payments in respect of new projects operated by MergeCo under a service concession;
"Appointed Day"	means the day designated pursuant to the Merger Ordinance as the day on which the Rail Merger is completed;
"Concession Assets"	means the assets of the KCRC System to be used by MergeCo to provide the KCRC Services including the assets of the KCRC Railway, the TSA Buses and the assets of the KCRC Related Businesses;
"Concession Payments"	means the fee for the Service Concession and the consideration for the Purchased Rail Assets, which forms part of the upfront payment totalling HK\$4.25 billion payable by MergeCo to KCRC on the Appointed Day, the Fixed Annual Payment and the Variable Annual Payment;
"Concession Period"	means a period of 50 years from the Appointed Day, as may be extended pursuant to the IOA and the MTR Ordinance;
"Confidential Memorandum of Understanding"	means the confidential memorandum of understanding entered into on 11th April, 2006 in relation to the Rail Merger;
"ER" or "East Rail"	means the railway line known as East Rail;
"ERE" or "East Rail Tsim Sha Tsui Extension"	means the railway extension known as East Rail Tsim Sha Tsui Extension;
"Fixed Annual Payment"	means the payment described in paragraph B.2.(b) of this announcement;
"Government"	means the Government of the Hong Kong Special Administrative Region;
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China;
"Initial Concession Assets"	means the Concession Assets as at the Appointed Day;
"Integrated Railway"	means the KCRC Railway and the MTRC Railway;
"Integrated Services"	means the KCRC Services and the MTRC Services;
"Intercity Service"	means the railway service provided through the operation of the Intercity Trains;
"Intercity Trains"	means the intercity passenger and freight rail system from time to time;
"IOA" or "Integrated Operating Agreement"	means the Integrated Operating Agreement expected to be entered into by Government and MergeCo in relation to the operation of the MergeCo System, as amended from time to time;
"Investment Property Sites"	means the commercial accommodation and kindergarten, Royal Ascot (Plaza Ascot); the commercial areas of Pierhead Plaza and the 32 car parking spaces on I/F, Tuen Mun; the commercial areas, the kindergarten and the 421 car parking spaces of Sun Tuen Mun Centre, Tuen Mun; the commercial areas of Hanford Plaza and the 22 car parking spaces on G/F, Tuen Mun; the 20 residential units and the 20 car parking spaces, Royal Ascot, Shatin; the retail floor, I/F to 6/F, Citylink Plaza, Shatin; the investment property in KCRC Hung Hom Building, Kowloon; and the 252 residential units and the 60 car parking spaces, Trackside Villas;
"KCRC"	means the Kowloon-Canton Railway Corporation;
"KCRC Common Assets"	means assets that are owned, used, or kept by KCRC (excluding MTRC assets) and that are used both in the provision of the MTRC Services and the provision of the KCRC Services;
"KCRC Ordinance"	means the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong), as amended from time to time;
"KCRC Railway"	means: (a) the "Kowloon-Canton Railway" as defined in the KCRC Ordinance (composed of ER and WR); (b) the Light Rail from time to time; (c) the Intercity Trains; (d) the ERE from time to time; (e) the MOSR from time to time; (f) each of KSL, LMCSL and SCL on the date of its completion and from time to time; and (g) any other railway which is part of the "railways" as defined in the KCRC Ordinance from time to time;
"KCRC Related Businesses"	means KCRC's businesses related to the KCRC Railway including KCRC's advertising, telecommunications, duty free, kiosk rental, station trading, car park rental, machine and terminal rental businesses from time to time (but excluding, for the avoidance of doubt, the property development, property investment and property management rights that are part of the Property Package);
"KCRC Services"	means the services provided through the operation of the KCRC System;
"KCRC System"	means: (a) the KCRC Railway from time to time; (b) the TSA Buses; and (c) the KCRC Related Businesses;
"KSL" or "Kowloon Southern Link"	means the Kowloon Southern Link;
"LegCo"	means the Legislative Council of Hong Kong;
"Light Rail"	means the "North-west Railway" as defined in the KCRC Ordinance;
"Listing Rules"	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"LMCSL"	means the railway line known as Lok Ma Chau Spur Line;
"MergeCo"	means MTRC on and from the Appointed Day;
"MergeCo Common Assets"	means assets that are owned, used or kept (excluding KCRC assets) by MergeCo and that are used in both the provision of the MTRC Services and the provision of the KCRC Services, to be more particularly defined in the definitive transaction documents;
"MergeCo System"	means the KCRC System and the MTRC Railway from time to time;
"Merger Ordinance"	means the Ordinance expected to be enacted in relation to the Rail Merger;
"MOSR"	means the railway line known as Ma On Shan Rail;
"MTRC" or the "Company"	means MTR Corporation Limited, a company incorporated in Hong Kong under the Companies Ordinance (Chapter 32 of the laws of Hong Kong) with company number 714016, whose registered office is at MTR Tower, Telford Plaza, 33 Wai Yip Street, Kowloon Bay, Kowloon;
"MTR Ordinance"	means the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong), as amended from time to time;
"MTRC Railway"	means the "railway" as defined in the MTR Ordinance;
"MTRC Services"	means the services provided through the operation of the MTRC Railway;
"Net Cash Flow of the New Project"	means, for the purposes of calculating any Additional Concession Payment, the incremental revenues received as a consequence of operating the new project with that of MergeCo System, minus the incremental operating cost and incremental tax charge and the on-going capital expenditure of the new project;
"New Separate Projects"	means projects that are neither natural extensions of the MTRC Railway or the KCRC Railway;
"Operating Agreement"	means the Operating Agreement dated 30th June, 2000 between the Secretary for Transport (on behalf of Government) and MTRC, as amended from time to time;
"Payments Relating to Enabling Works"	means the payments defined in paragraph B.3.(a) of this announcement;
"Property Development Sites"	means the property development sites at Ho Tung Lau, Wu Kai Sha, Tai Wai Maintenance Centre, Che Kung Temple, Tai Wai Station, Tin Shui Wai LRT, Kowloon Southern Link Site C and Kowloon Southern Link Site D;
"Property Package"	means the property interests that MergeCo will purchase and the terms of such purchase, as summarised in paragraph B.1.(e) of this announcement;
"Purchased Assets"	means the Purchased Rail Assets and the Property Package;
"Purchased Rail Assets"	means: (a) certain assets of KCRC as at the Appointed Day that are used by KCRC to provide the KCRC Services as at the Appointed Day (such assets shall be agreed by Government and MTRC in the SPA); and (b) contractual rights of KCRC that are necessary for MergeCo to provide the KCRC Services (to the extent that MergeCo does not obtain the right to do so pursuant to the SPA), including certain stores, spares, equipment and tools;
"Rail Merger"	means the proposed merger of the operations of the Company and KCRC together with the acquisition by the Company from KCRC of the Property Package;
"Required Standards"	means: (a) the safety, performance and other operational standards prescribed in the MTR Ordinance and the IOA for the Integrated Services (other than those to be provided by the TSA Buses) from time to time (but, for the avoidance of doubt, excludes the Customer Service Pledges as defined in the IOA); and (b) the safety, performance and other operational standards prescribed in such other instruments, agreements or other documents (to be agreed by Government and the Company) for the Integrated Services to be provided by the TSA Buses from time to time;
"SCA" or "Service Concession Agreement"	means the service concession agreement to be entered into to document the terms and conditions of the Service Concession;
"SCL"	means the Shatin to Central Link as described in paragraph C.4. of this announcement;
"Service Concession"	means a service concession that KCRC shall grant MergeCo to access and use the Concession Assets to provide the KCRC Services;
"SPA" or "Sale and Purchase Agreement"	means the sale and purchase agreement to be entered into between MergeCo and KCRC which documents the terms and conditions of the sale to MergeCo of the Purchased Assets (or any part thereof);
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"TCC"	means the Tung Chung Cable Car, now known as Ngong Ping 360;
"TSA Buses"	means the TSA bus system from time to time;
"Variable Annual Payment"	means the payment described in paragraph B.2.(c) of this announcement; and
"WR" or "West Rail"	means the railway line known as West Rail.

By Order of the Board
Leonard Bryan Turk
Company Secretary

Hong Kong, 11th April, 2006

Members of the Board: Dr. Raymond Chi'ien Kuo-fung (Chairman)**; Chow Chung-kong (Chief Executive Officer); Professor Cheung Yau-kai*, David Gordon Eldon*, Christine Fang Meng-sang*, Edward Ho Sing-tin*, Lo Chung-hing*, T. Brian Stevenson*, 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 (Alan Wong Chi-kong)**

Members of the Executive Directorate: Chow Chung-kong, Russell John Black, William Chan Fu-keung, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Francois Lung Ka-kui, Andrew McCusker and Leonard Bryan Turk

* independent non-executive Directors

** non-executive Directors

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