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MTR CORPORATION LIMITED

香港鐵路有限公司

(the “Company”)

(Incorporated in Hong Kong with limited liability)

(Stock code: 66)

SITE E OF THE REMAINING PORTION OF TSEUNG KWAN O TOWN

LOT NO.70, AREA 86

TSEUNG KWAN O, SAI KUNG, NEW TERRITORIES

CONNECTED TRANSACTION

On 20th December, 2007, the Company accepted an offer from the Government to allow the Company to proceed with the proposed development on Site E subject to the Company's acceptance of the Government's assessment of the premium for Site E (being HK\$3,335,000,000.00), the payment of which will be funded by the Developer and of the terms of the Modification Letter and ancillary terms and conditions. The offer was made by the Government on 9th November, 2007.

As the Government is a controlling shareholder of the Company and therefore a connected person of the Company, the Transaction is a connected transaction for the Company under Rule 14A.13 of the Listing Rules. As disclosed in the announcement of the Company dated 13th January, 2005, the Stock Exchange has granted the Waiver to the Company from the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions between the Company and the Government subject to the conditions described

below under the heading “General”. Had the Waiver not been granted, the Transaction would have been subject to the announcement, the reporting and the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

This announcement is made in accordance with the conditions of the Waiver and Rule 14A.47 of the Listing Rules. Details of the Transaction will be disclosed in the next annual report of the Company in accordance with Rule 14A.45 of the Listing Rules.

Acceptance of Government’s Offer and Modification Letter

On 20th December, 2007, the Company accepted an offer from the Government to allow the Company to proceed with the proposed development on Site E subject to (a) the Company’s acceptance of the Government’s assessment of the premium of Site E (being HK\$3,335,000,000.00), the payment of which will be funded by the Developer and of the terms of the Modification Letter, and (b) ancillary terms and conditions. The offer was made by the Government on 9th November, 2007.

Under the terms of the Government’s offer, a binding contract between the parties arises when Government receives the Company’s acceptance. The Company delivered the acceptance to Government on 20th December, 2007. The Modification Letter is to be executed within three calendar months from that date. The Modification Letter contains details relating to the arrangements for the implementation of the proposed development on Site E and also on Tseung Kwan O Town Lot No.70 generally. The Modification Letter amends the building covenant period for Site E from “the later of on or before the 30th day of September, 2013 or 66 calendar months from the date of payment of the Site E premium” to “78 calendar months from the date of payment of the Site E premium”, defines the development parameters and the site boundary of Site E, increases the allowable building height for all Sites except that of Site F, Site AB and Site M, reduces the number of school sites and kindergarten classrooms, increases the minimum local open space and requires permitted works to be

carried out within The Remaining Portion of Tseung Kwan O Town Lot No.70. The total gross floor area of the development on Site E will be approximately 128,544 square metres. Site E will comprise residential accommodation, a kindergarten and parking spaces. The premium has been assessed by the Government to be HK\$3,335,000,000.00, by reference to the full market value of Site E, ignoring the presence of the railway. The Company is required to pay a deposit of the premium (being HK\$1,000,000.00) to the Government on acceptance of the Government's offer and to pay the balance of the said premium (being HK\$3,334,000,000.00) as demanded by the Government within three calendar months from the date of acceptance. The payment of the premium including the deposit will be funded by the Developer.

Reasons for accepting Government's offer

The Company has accepted Government's offer and proposes to execute the Modification Letter in order to be allowed to proceed with the proposed development on Site E. On the basis that the assessed premium is considered to be in line with current market values, and having regard to all of the terms and conditions of the Government's offer, the Directors (including the independent non-executive Directors) believe that the terms of Government's offer and the relevant documentation (including the Modification Letter) are fair and reasonable and in the interests of the shareholders of the Company as a whole.

General

As the Government is a controlling shareholder of the Company and therefore a connected person of the Company, the Transaction is a connected transaction for the Company under Rule 14A.13 of the Listing Rules. As disclosed in the announcement of the Company dated 13th January, 2005, the Stock Exchange has granted the Waiver to the Company from the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions between the Company and the Government involving land and land interests subject to certain conditions. Under the Waiver, the Company is required to make an announcement of the Transaction in accordance with Rule 14A.47 of

the Listing Rules and to disclose details of the Transaction in its next annual report in accordance with Rule 14A.45 of the Listing Rules. The Company is also required under the Waiver to make the Transaction subject to the approval of the Board, with the Directors appointed by the Government under section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) and any Director who holds a position in the Government being required to abstain from voting. Accordingly, Professor Chan Ka-keung, Ceajer (represented by his alternate director, Mr. Leung Cheuk-man), the Secretary for Transport and Housing (represented by her alternate director, the Permanent Secretary for Transport and Housing (Transport)) and the Commissioner for Transport disclosed their interest in the Transaction and they each abstained from voting on the relevant Board resolutions. Had the Waiver not been granted, the Transaction would have been subject to the announcement, the reporting and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

This announcement is made in accordance with the conditions of the Waiver and Rule 14A.47 of the Listing Rules. Details of the Transaction will be disclosed in the next annual report of the Company in accordance with Rule 14A.45 of the Listing Rules.

Principal activities of the Company

The principal activities of the Company and its subsidiaries are (a) the operation of mass transit, suburban, intercity and freight railway systems, (b) property development at locations connected to the railway systems, (c) related commercial activities, property management and leasing management of investment properties, property agency and Octopus Card Building Access Services, (d) the operation of the 7-year London Overground Concession, in which the Company has a 50% share, covering 60 route kilometres of commuter railway in London's outer suburbs, (e) the design and construction of Tseung Kwan O South Station as an extension of the Tseung Kwan O Line, (f) the planning and construction of future extensions to the railway system and other related infrastructure projects, (g) the operation of the Tung Chung to Ngong Ping Cable Car System and The Theme Village in Ngong Ping, (h)

consultancy services, (i) investment in Octopus Holdings Limited, a subsidiary of the Company, which has business activities both in Hong Kong and overseas including the operation of a smart card system by its subsidiary, Octopus Cards Limited, for the collection of payments for both transport and non-transport applications in Hong Kong, (j) equity investments and long term operation and maintenance contracts outside of Hong Kong, (k) property management, shopping centre investment and railway related property development business in the Mainland of China, and (l) the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for future operations under a 30 year concession agreement with the Beijing Municipal Government.

Definitions

- “Conditions of Grant” means the particulars and conditions for the grant of an agreement for lease by private treaty of Tseung Kwan O Town Lot No.70 between the Government and the Company dated 16th May 2002 as varied or modified by modification letters dated 19th April 2005 and 13th April 2006 and as the same is affected by the Deed Poll;
- “Board” means the board of Directors;
- “Deed Poll” means the Deed Poll dated 16th November 2007 and registered at the Land Registry by Memorial No. 07112002850019 partitioning the lot into Section A and The Remaining Portion;
- “Developer” means Wealth Pine Investment Limited, which was the successful tenderer in the tender to develop Site E;
- “Directors” means members of the board of directors of the Company;

“Government”	means the Government of Hong Kong;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Modification Letter”	means the further modification letter to be entered into between the Company and the Government in relation to the Conditions of Grant;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Site AB”, “Site F”, “Site M” and “Sites”	have the same meanings as those used in the Conditions of Grant as the same is affected by the Deed Poll;
“Site E”	means Site E of The Remaining Portion of Tseung Kwan O Town Lot No.70, Area 86, Tseung Kwan O, Sai Kung, New Territories;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Transaction”	means the Company’s acceptance of an offer from the Government to allow the Company to proceed with the proposed development on Site E subject to the Company’s acceptance of the Government’s assessment of the premium of Site E and of the terms of the Modification Letter and ancillary terms and conditions; and

“Waiver” means the waiver granted by the Stock Exchange to the Company from the requirements under Chapter 14A of the Listing Rules (subject to certain conditions).

By Order of the Board
Leonard Bryan Turk
Secretary

Hong Kong, 20 December, 2007

Members of the Board: Dr. Raymond Ch'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*, Ng Leung-sing*, Abraham Shek Lai-him*, T. Brian Stevenson*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Eva Cheng)** 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.

