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MTR CORPORATION LIMITED

(地鐵有限公司)

(the “Company”)

(Incorporated in Hong Kong with limited liability)

(Stock code: 66)

RAIL MERGER UPDATE ON DISCUSSIONS

The Company notes from media reports earlier today that the Secretary for the Environment, Transport and Works has informed the Bills Committee about two points arising from the ongoing negotiations between the Company and Government on the proposed definitive transaction documents for the Rail Merger. The Company wishes to state its position in relation to these media reports.

During the course of the legislative process relating to the Rail Merger, the Company has indicated to Government that it would be prepared to consider including in the proposed definitive transaction documents provisions to address the following:

1. Fare Adjustment Mechanism

That, as part of the Fare Adjustment Mechanism, the Company would be able to adjust individual fares within a range of ± 5 percentage points from the overall fare adjustment rate, subject to overall compliance of its fare basket with the Fare Adjustment Mechanism.

2. Arrangements on Fares

To extend the period during which the Company would not increase the fares to which the Fare Adjustment Mechanism would apply, to the earlier of: (i) 30th June, 2009; and (ii) the date on which merger negotiations between the parties are terminated (if at all).

On 17th May, 2007, the Secretary for the Environment, Transport and Works stated to the Bills Committee that the Government would be prepared to agree to the matters described above.

The Company confirms that, following this Announcement, negotiations between the Company and Government will continue in relation to the proposed definitive transaction documents. The Company continues to believe that if the Rail Merger is implemented on acceptable terms, it would be beneficial to shareholders.

The Rail Merger is subject to the enactment by LegCo of the Merger Ordinance and related subsidiary legislation. The Bill for the Merger Ordinance is currently being discussed by the Bills Committee. The Rail Merger is also subject to the approval of independent shareholders of the Company at an extraordinary general meeting of the Company. The Company will make (a) further announcement(s) at the appropriate time(s). **There is no assurance that the Rail Merger will be implemented.**

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

A. UPDATE ON DISCUSSIONS REGARDING THE RAIL MERGER

The Company notes from media reports earlier today that the Secretary for the Environment, Transport and Works has informed the Bills Committee about two points arising from the ongoing negotiations between the Company and Government on the proposed definitive transaction documents for the Rail Merger. The Company wishes to state its position in relation to these media reports.

Further to the Company's Announcement dated 11th April, 2006 regarding the signing of the Confidential Memorandum of Understanding with the Secretary for the Environment, Transport and Works and the Secretary for Financial Services and the Treasury for and on behalf of Government in relation to the Rail Merger, the Company has continued negotiations with Government and KCRC in relation to the proposed definitive transaction documents for the Rail Merger.

1. Fare Adjustment Mechanism

As discussed in the Company's Announcement dated 11th April, 2006, the Confidential Memorandum of Understanding provided that a "direct drive" fare adjustment formula (the "**Fare Adjustment Mechanism**", or "**FAM**") should be adopted. The FAM would provide that any adjustment to fares should be linked to changes in the Government Composite Consumer Prices Index and changes in the Nominal Wage Index (Transport Sector) published by the Census & Statistics Department of Government, and, starting from the sixth year following the date on which the Rail Merger is implemented, taking into account a productivity factor. The Company would be able to adjust individual fares, within specified bands of rates of adjustment, subject to overall compliance of its fare basket with the FAM.

During the course of the legislative process relating to the Rail Merger, the Company has indicated to Government that it would be prepared to consider including in the proposed definitive transaction documents a provision which enables the Company to adjust individual fares within a range of ± 5 percentage points from the overall fare adjustment rate, subject to overall compliance of its fare basket with the FAM.

2. Arrangements on Fares

As discussed in the Company's Announcement dated 11th April, 2006 the Confidential Memorandum of Understanding provided that, for the period commencing on the date of the CMoU and ending on the earlier of: (a) the date that is 24 months after the date of the CMoU; and (b) the date on which merger negotiations between the parties are terminated, the Company shall not increase the fares to which the FAM will or would apply.

During the course of the legislative process relating to the Rail Merger, the Company has indicated to Government that it would be prepared to consider including in the proposed definitive transaction documents a provision which extends the period during which the Company would not increase the fares to which the proposed FAM would apply, to the earlier of: (i) 30th June, 2009; and (ii) the date on which merger negotiations between the parties are terminated (if at all).

On 17th May, 2007, the Secretary for the Environment, Transport and Works stated to the Bills Committee that the Government would be prepared to agree to the matters which were indicated to the Government by the Company, as described above.

B. GENERAL

The Company confirms that, following this Announcement, negotiations between the Company and Government will continue in relation to the proposed definitive transaction documents for the Rail Merger.

The Company continues to believe that if the Rail Merger is implemented on acceptable terms, it would be beneficial to its shareholders. 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.

In addition, the Rail Merger is subject to the enactment by LegCo of the Merger Ordinance and related subsidiary legislation. The Bill for the Merger Ordinance is currently being discussed by the Bills Committee. In addition, the Rail Merger is subject to the approval of independent shareholders of the Company at an extraordinary general meeting of the Company. The Company will make (a) further announcement(s) at the appropriate time(s). **There is no assurance that the Rail Merger will be implemented nor that, if implemented, it will address the matters summarised above. The share price of the Company may be subject to fluctuations in the interim. Investors should exercise caution in their dealings in the securities of 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.

C. DEFINITIONS

“Bills Committee”	means the Bills Committee of LegCo which is considering the Rail Merger Bill;
“Confidential Memorandum of Understanding” or “CMoU”	means the confidential memorandum of understanding entered into on 11th April, 2006 in relation to the Rail Merger;
“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;

“KCRC”	means the Kowloon-Canton Railway Corporation;
“LegCo”	means the Legislative Council of Hong Kong;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Merger Ordinance”	means the Ordinance for the implementation of the Rail Merger;
“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; and
“Rail Merger”	means the proposed merger of the operations of the Company and KCRC together with the acquisition by the Company from KCRC of a property package.

By Order of the Board
Leonard Bryan Turk
Company Secretary

Hong Kong, 17th May, 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*, 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.

Please also refer to the published version of this announcement in South China Morning Post dated 18 May, 2007.

