

Press Release

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25 June 2002

MTR CORPORATION LIMITED
(地鐵有限公司) (the “Company”)
(Incorporated in Hong Kong with limited liability)

Shatin to Central Link railway project not awarded to the Company

The Company regrets to announce that the government of the Hong Kong Special Administrative Region (the “Government”) has today informed the Company that the Government has decided not to award to the Company the right to construct and operate the proposed Shatin to Central Link railway project (the “Project”).

As described in the prospectus dated 25th September, 2000 (the “Prospectus”) (in particular, in the section entitled “Risk Factors”), issued in connection with the Company’s privatisation, the Company expects that its revenues will be negatively affected by the operation of the Project by KCRC, after the Project becomes operational in 2008.

The Company believes that it submitted a highly competitive proposal for the Project. The Company’s proposal included 9 different scheme alignments offering attractive combinations of transport benefits and cost efficiencies. As confirmed by Government, the Company’s project cost were significantly lower than KCRC’s.

All of the Company’s proposals were able to achieve a project return equivalent to the Company’s weighted average cost of capital plus a margin of 1% to 3%, being the commercial rate of return on investment in new rail projects required by the Company, as stated in the Prospectus, so as not to affect negatively shareholders’ value. To achieve these levels of return the Company included in its proposals carefully designed property development schemes to complement the construction of the railway. Without these property developments, the Project would not have produced a commercial rate of return for the Company and would therefore not have been in the best interests of shareholders.

The Company notes that one of the principal reasons stated by Government for the award to KCRC was that the KCRC proposal did not require any funding support including any property development rights to be granted by the Government. The Company believes that KCRC's lack of requirement for property development is made possible by the diversion of passengers and revenue from the existing MTR system after the KCRC SCL opens. This was highlighted as a concern in the Company's proposal to Government.

The Company notes the Government's comment on commencing a feasibility study on a possible merger between the Company and KCRC.

In the meantime, the Company will focus on the completion of the Tseung Kwan O Extension which is expected to be in August of 2002 and the planning for other projects such as the Island Line Extensions, the South Island Line and the Penny Bay's Rail Link. In addition, the Company will consider ways of increasing revenue in future years to mitigate against the shortfall expected in 2008.

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