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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

EXECUTION OF TRANSACTION AGREEMENTS

(1) CONNECTED TRANSACTIONS

(2) VERY SUBSTANTIAL ACQUISITION

Joint Financial Advisers to the Company

**Goldman
Sachs**
Goldman Sachs (Asia) L.L.C.

 **UBS** Investment
Bank
UBS Investment Bank

Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders

 **Merrill Lynch**
Merrill Lynch (Asia Pacific) Limited

Execution of Transaction Agreements relating to the Rail Merger

Further to the announcement of 11 April 2006 made by the Company in relation to the Memorandum of Understanding regarding the Rail Merger, the approval of the Rail Merger Ordinance by LegCo on 8 June 2007 and as a result of negotiations between the Company, the Government and KCRC, the Board is pleased to announce that the Transaction Agreements for the implementation of the Rail Merger were entered into on 9 August 2007. The completion of the Transaction Agreements and the implementation of the Rail Merger are subject to, amongst other things, Independent Shareholder approval and the commencement of the Rail Merger Ordinance.

The principal terms of the Rail Merger and the Transaction Agreements are provided in this announcement.

Very Substantial Acquisition

The Rail Merger and the entering into of the Transaction Agreements together constitute a “very substantial acquisition” for the Company under Chapter 14 of the Listing Rules and are therefore, amongst other things, subject to the approval of the Independent Shareholders.

Connected Transactions

As at 30 June 2007, the Government is a substantial shareholder of the Company (holding approximately 76.7% of the Shares) and the sole beneficial shareholder of KCRC (making KCRC an “associate” of the Government for the purposes of the Listing Rules). Therefore, the Rail Merger and the entering into of the Transaction Agreements also constitute “connected transactions” under Chapter 14A of the Listing Rules. As such, the Rail Merger and the entering into of the Transaction Agreements together are subject to the approval of the Independent Shareholders.

The Listing Rules provide that any connected person with a material interest in a connected transaction and any shareholder (together with its associates) with a material interest in a connected transaction, is required to abstain from voting on resolutions approving that transaction. Accordingly, the Government (and its associates) as a connected person and a Shareholder with a material interest in the Rail Merger, is not an Independent Shareholder and will be required to abstain from voting at the Merger EGM in respect of the Rail Merger.

Continuing Connected Transactions

Given the unique nature of the Company and its business and its on-going dealings with the Government (and its associates), at the time of the Company’s initial public offering and listing on the Stock Exchange, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements of the Listing Rules relating to connected transactions (subject to certain conditions) which would otherwise apply to certain transactions with the Government (and its associates including KCRC). That waiver was renewed and updated in 2004 subject to the Company not being permitted to rely on it for the purposes of the Rail Merger. As a result, as noted above, the Rail Merger and the entering into of the Transaction Agreements together are subject to the approval of Independent Shareholders.

As a result of the Rail Merger, the Company will, with effect from the Merger Date, be a party to a number of additional continuing connected transactions not currently covered by the existing waiver. The Company has made a submission to the Stock Exchange to request that a new waiver from strict compliance with Chapter 14A of the Listing Rules be granted in relation to additional continuing connected transactions which arise (or may arise) as a result of the Rail Merger.

Independent Board Committee and Independent Financial Adviser

In accordance with Listing Rule 13.39(6(a)), the Company has established an Independent Board Committee to advise the Independent 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 the Shareholders as a whole and to advise the Independent Shareholders how to vote, taking into account the recommendations of the Independent Financial Adviser, in respect of the EGM Resolution.

In accordance with Listing Rule 13.39(6(b)), Merrill Lynch (Asia Pacific) Limited has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent 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 the Shareholders as a whole and to advise the Independent

Shareholders how to vote in respect of the EGM Resolution.

Extraordinary General Meeting and EGM Circular

The EGM Circular which shall contain, amongst other things, (i) details of the Rail Merger and the Transaction Agreements, (ii) a letter of advice from the Independent Board Committee, (iii) a letter of advice from the Independent Financial Adviser, and (iv) a notice to the Shareholders convening the Merger EGM, will be despatched to Shareholders as soon as practicable.

This announcement is made in accordance with Rules 14.34 and 14A.47 of the Listing Rules.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities. There is no assurance that the Rail Merger will proceed. Investors are advised to exercise caution in dealing in the Shares.

1. INTRODUCTION

On 11 April 2006, the Company and the Government entered into the Memorandum of Understanding which sets out the structure and key terms of the Rail Merger and forms the initial basis upon which the Transaction Documents were agreed. The Memorandum of Understanding is not legally binding. As a result of negotiations between the Company, the Government and KCRC, the Transaction Agreements which implement the Rail Merger were entered into on 9 August 2007 (other than certain Transaction Agreements which are to be entered into after the Signing Date). The completion of the Transaction Agreements and the implementation of the Rail Merger are subject to, amongst other things, Independent Shareholder approval and the commencement of the Rail Merger Ordinance.

The Directors have considered the terms of the Rail Merger and each of the Transaction Documents and believe that the terms of the Rail Merger and each of the Transaction Documents are fair and reasonable and are in the interests of the Shareholders as a whole.

2. BACKGROUND TO THE RAIL MERGER

In February 2004, the Government invited the Company and KCRC to commence discussions relating to a possible rail merger on the basis of the following parameters:

- (1) Adoption of a more objective and transparent fare adjustment mechanism;
- (2) Abolition of the second boarding charge and review of the fare structure with the objective of reducing fares;
- (3) Early resolution of interchange arrangements for new rail projects under planning, notably the Shatin to Central Link;
- (4) Ensuring job security for frontline staff at the time of the Rail Merger; and
- (5) Provision of seamless interchange arrangements in the long run.

The Memorandum of Understanding, amongst other things, addressed each of the five parameters above.

3. THE RAIL MERGER PACKAGE AND CONSIDERATION

The Rail Merger Package

The Rail Merger includes, amongst other things:

- pursuant to the Sale and Purchase Agreement, the sale and purchase of the Purchased Rail Assets and certain of KCRC's subsidiaries;
- pursuant to the Property Package Agreements and the Sale and Purchase Agreement, arrangements for the transfer to the Company of the economic benefits of the Property Package;
- pursuant to the Rail Merger Ordinance, the expansion of the Franchise to enable the Company to operate the Integrated Railway under a single franchise for an initial period of 50 years;
- pursuant to the Operating Agreement, the operation by the Company of the Integrated Railway as an integrated system;
- pursuant to the Service Concession Agreement, an arrangement under which, amongst other things:
 - KCRC will grant the Service Concession to the Company for an initial period of 50 years in order to enable the Company to access, use and operate the Concession Property to provide the KCRC Services; and
 - the Company will provide the KCRC Services to the Required Standards;
- pursuant to the KSL Project Management Agreement, an arrangement under which the Company will act as KCRC's agent in connection with the construction of the KSL;
- pursuant to the West Rail Agency Agreement, an arrangement under which the Company will act as an agent for KCRC and certain of its subsidiaries, in connection with the development of properties at, adjacent to or above West Rail;
- pursuant to the US CBL Assumption Agreements, arrangements under which the Company will become a co-obligor, together with KCRC, of certain of KCRC's obligations to the counterparties of the CBLs (indemnities in relation to which are contained in the Merger Framework Agreement);
- pursuant to the US CBL Allocation Agreement, arrangements delineating the rights and obligations between KCRC and the Company in respect of the exercise of rights and the performance of obligations under the terms of the CBLs;
- in accordance with the Liaison Committee Letter, provisions relating to material decisions of KCRC between the Signing Date and the Merger Date; and
- other transactions and matters as set out in the Merger Framework Agreement and the other Transaction Agreements.

The Company, the Government and KCRC have acknowledged that the Rail Merger and the Transaction Agreements comprise an integrated package of terms.

The Rail Merger excludes the Excluded Assets, which will be retained by KCRC. As discussed further in this announcement, the Rail Merger has been structured to ensure that the Company obtains the necessary rights to access, use and operate the Integrated Railway and the Property Package. The Excluded Assets are not required by the Company for these purposes.

Payments

The Company will be required to pay to KCRC the following payments:

- (1) *Upfront Payments*: of HK\$4.25 billion, payable under the Service Concession Agreement, being the upfront fee for the right to operate the Service Concession and the consideration for the Purchased Rail Assets, and a further payment of HK\$7.79 billion payable under the Merger Framework Agreement in consideration for the execution of the Property Package Agreements, in each case payable on the Merger Date;
- (2) *Fixed Annual Payments*: of HK\$750 million payable under the Service Concession Agreement, for the right to use and operate the Concession Property for the operation of the Service Concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the Concession Period in respect of the 12 month period up to and including the date on which such payment falls due; and
- (3) *Variable Annual Payments*: payable under the Service Concession Agreement, for the right to use and operate the Concession Property for the operation of the Service Concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC System (as determined in accordance with the Service Concession Agreement) for each financial year. The applicable percentage will vary according to the amount of revenue from the KCRC System for the relevant financial year as follows: for the first HK\$2.5 billion of revenue from the KCRC System, the applicable percentage will be 0.0%; for the next HK\$2.5 billion, the applicable percentage will be 10.0%; for the next HK\$2.5 billion, the applicable percentage will be 15.0%; for the revenue from the KCRC System above the first HK\$7.5 billion, the applicable percentage will be 35.0%. The Variable Annual Payments will be payable annually in arrears within 60 days after the end of the relevant financial year of the Company (and will be adjusted if, following finalisation of the Company's audited accounts, the amount paid by the Company within the 60 day period referred to above is not correct). No Variable Annual Payment shall be payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above, no specific allocation has been made between the various elements of the Rail Merger.

The payments set out above were determined by the Directors after arm's length negotiations with the Government. In arriving at the consideration, the Directors did not place reliance on any one single factor but considered numerous factors as a whole, including financial considerations, such as capital expenditure requirements, credit ratios, discounted cash flow, market trading multiples, the Property Package and the payment structure, together with a broader range of issues including the strategic growth and market positioning of the

Company, the heightened degree of certainty relating to the fares of the Company and additional certainty for the Company relating to the construction and operation of the SCL (as further described under the section below headed "Shatin to Central Link").

Source of Funding

The Company will be funding the initial up-front payment of HK\$4.25 billion, being the upfront fee for the Service Concession and the consideration for the Purchased Rail Assets, and a further payment of HK\$7.79 billion for the Property Package from a combination of internal financing resources, drawings from existing undrawn committed banking facilities and new debt financing to be raised. It is expected that the Fixed Annual Payments and Variable Annual Payments will be funded mainly from internal resources.

4. REASONS FOR AND BENEFITS OF THE RAIL MERGER

The Company stated in the announcement in relation to the signing of the Memorandum of Understanding on 11 April 2006 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. The Company considers that the terms of the Rail Merger provided in the Transaction Documents will be beneficial for the following principal reasons, each of which will be discussed in further detail in the EGM Circular:

Enhancement of Value

From the commencement of operations of the MTRC Railway in 1975, Hong Kong has been provided with a reliable, efficient and affordable urban mass transport system. Since the privatisation of the Company in October 2000, the success of the Company's business has continued and has been reflected in the increase in Shareholder value via the Company's share price appreciation together with the payment of regular dividends. As a result of the Rail Merger, there will be a significant increase to the revenue base of the Company. It is expected that such increase, together with the other benefits, will contribute to the accretion of earnings and cashflow of the Company. It is also expected that the Rail Merger will enhance the Shareholders' equity of the Company.

In addition to the enhancement arising from the increased revenue base of the rail and rail related operations, the Company considers that the Property Package will also contribute to Shareholder value enhancement.

Benefits to the Rail Business

Expanded Rail Network and Increased Rail Patronage. The Rail Merger will provide the Company with significant growth opportunity through an expanded rail network, which will extend the Company's operations within Kowloon and into the New Territories. The expansion will also extend the Company's operations into the Mainland, providing, amongst other things, a platform to further expand its operations into the Pearl River Delta region. The expanded rail network will be a backbone for transport and will account for more than 40% of the franchised public transport market share in Hong Kong.

Beyond immediate rail network growth, the Rail Merger will also bring significant future expansion in the form of the KSL, and potential future KCRC lines such as Northern Link as well as the Express Rail Link and the SCL.

It is further anticipated that with the integration of the two railway networks, allowing for seamless journeys from one end of the Integrated Railway to the other, together with lower fares and improved planning, design and construction of new extensions, the Company will have the ability to enhance its competitiveness over other transport providers in Hong Kong and further increase its patronage.

Objective Fare Adjustment Mechanism. One of the parameters set by the Government for the Rail Merger was the introduction of the proposed Fare Adjustment Mechanism or FAM. The adoption of the FAM, a direct-drive formula, will require the Company to adjust its fares according to a pre-determined formula based on changes in the composite consumer price index and wage index, and a productivity factor (the purpose of which is to incentivise the Company to achieve productivity gains). As a result, fares may be adjusted upwards or downwards depending on the fluctuations of such factors. The Company may also adjust certain individual fares within a range of ± 5 percentage points from the overall fare adjustment level determined by the FAM under certain circumstances. The Company believes that the FAM offers a predictable, objective and transparent solution to the question of fare adjustment. Consequently, it gives the Company a measure of certainty with respect to the setting of its fares. The Company therefore considers that the FAM will be beneficial to the Company particularly in the long term. Further details of the FAM are contained in the summary of the Operating Agreement set out below.

Creation of Synergies. Following the Rail Merger, the Company will operate and manage the businesses of the Company and KCRC in an integrated manner. By applying best practices to the expanded rail network, it is expected that there will be a creation of both cost and revenue synergies in a number of business areas.

Benefits to the Property Business

One of the key ingredients to the Company's success has been its rail-and-property model. This model has enabled the Company to develop properties and build communities along and adjacent to the railway, creating a virtuous cycle of increased patronage and appreciating property values. As part of the Rail Merger, the Company will acquire the economic benefits of the Property Package which comprises property development rights, investment properties and a property management business. The Property Package will not only provide the Company with an increased land bank, but also increase the recurrent income from the investment property portfolio and property management businesses.

In addition, the Company will act as development agent in respect of West Rail property developments.

Benefits of the Rail Merger Transaction Structure

The rail component of the Rail Merger has been specially structured as a service concession, thereby allowing the Company to acquire the rights to access and operate the KCRC System and related assets whilst not assuming KCRC's pre-existing liabilities and debts nor paying a significantly greater upfront payment. In addition, the transaction structure will also be beneficial to the Company in terms of cash flow, earnings enhancement and financing flexibility. The annual variable payment structure also offers certain protection against future adverse changes in patronage and fares of the KCRC System.

The payment structure of the rail component includes an up-front payment and annual fixed and variable payments for the Concession Period. This payment structure alleviates the Company of the need to finance the entire transaction with a large upfront payment as would

normally be the case in a straightforward acquisition. It also allows the Company to fund a significant portion of the transaction consideration (i.e. the Fixed Annual Payments and the Variable Annual Payments) through operating revenue generated each year. With no Variable Annual Payments to be made in respect of the first 3 years from the Merger Date, the structure further enhances the cashflow and earnings of the Company during these initial years as synergies take effect.

Benefits to other Stakeholders

The Rail Merger will also give the Company a greater pool of experienced employees to staff its business requirements. The continued employment of both the Company's and KCRC's employees will be an invaluable asset for the success of the Rail Merger integration process and the future of the Integrated Railway. According to the assessments made by the Company and KCRC, the Rail Merger could achieve an overall staffing synergy of 650-700 in number. This would create direct cost savings in a number of areas of the Company's business. However, it is also estimated that more than 1,300 vacancies will be created in the first three years after the Rail Merger through various means, including the commissioning of new railways and property management as well as through retirement and turnover. A number of measures have been established by the Company regarding employees during the Rail Merger process.

5. CONDITIONS PRECEDENT TO THE RAIL MERGER

The Transaction Agreements are conditional upon:

- the Independent Shareholders passing the resolution to approve the Rail Merger and the Transaction Agreements at the Merger EGM; and
- each of the other Transaction Agreements (other than certain property related documents which will be entered into after the Merger Date) becoming effective on the Merger Date.

6. COMMENCEMENT OF THE RAIL MERGER ORDINANCE

The Merger Date is the day upon which the Rail Merger Ordinance will come in to force. The Merger Date is to be appointed by the Secretary for Transport and Housing.

Each of the Company and KCRC has acknowledged that the Secretary for Transport and Housing has an absolute and unfettered discretion as to the appointment of the Merger Date and has agreed that neither of them have any recourse whatsoever against the Secretary for Transport and Housing or the Government in respect of the timing of appointment of the Merger Date or any decision not to appoint a Merger Date.

The Company has been advised and recognises the Government's position that the appointment of the Merger Date by the Secretary for Transport and Housing will not be made until (i) the Company has received consent for the Rail Merger from the Independent Shareholders; (ii) KCRC has received consent from the KCRC Bondholders; and (iii) the US CBL Assumption Agreements have been entered into by the CBL counterparties.

If the Merger Date does not occur on or before 1 June 2008 and the Company, KCRC and the Government have not, on or before that date, agreed otherwise, then each of them has the right to terminate the Transaction Agreements.

7. TRANSACTION AGREEMENTS

A summary of the principal Transaction Agreements is set out below. Further details of each of the Transaction Agreements will be provided in the EGM Circular.

(A) **Merger Framework Agreement**

The Merger Framework Agreement was entered into on the Signing Date between the Company, KCRC, the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of the Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

Seamless Interchange Programme: The Company has undertaken that it shall complete a specified programme of milestone dates and preparatory work relating to station modification and the provision of barrier free interchanges at Nam Cheong, Mei Foo and Kowloon Tong stations, the integration of operations at those stations and at Tsim Sha Tsui station, the integration of ticketing for Octopus users and single journey ticket users and the establishment of an integrated communication coordination centre and hotline system. The external costs and expenses of implementing the seamless interchange programme up to the Merger Date shall be borne equally by the Company and KCRC and each of them shall bear its own internal costs and expenses. All costs and expenses of the seamless interchange programme incurred on or after the Merger Date shall be borne by the Company.

Corporate Governance: With effect from the Merger Date, the Company shall procure that the majority of its directors shall be independent non-executive directors. In addition the Company's nomination committee, which shall have the function of nominating candidates to fill vacancies on the Board, shall be composed of seven non-executive directors (including the Chairman of the Company and two non-executive directors representing the Government) with the majority being independent non-executive directors, and shall be chaired by an independent non-executive director.

Payments Relating to Property Enabling Works: For each of the Property Enabling Works Development Sites, KCRC shall be responsible for the funding of the property enabling works. Such funding shall be recovered from the Company for the relevant development site in an amount set out in a schedule to the Merger Framework Agreement. The Company, in turn, shall seek to recover such amount from the developer. If, for a relevant site, the actual amount received from the relevant developer is less than the relevant amount set out in the schedule, the Company shall be responsible for the shortfall. If the actual amount received from the relevant developer for a relevant site is more than the amount set out in the schedule, the Company shall keep the excess.

Land Policy Related Matters: The Company and the Government have acknowledged that a mechanism is needed which enables the Government to exercise control in exceptional circumstances on the level of flat production (being the number of flats which the Company puts out to tender to developers) arising from tender programmes for railway property development which is consistent with the way the Government monitors the overall housing supply situation. The Government and the Company shall conduct an annual exercise to discuss and draw up a three-

year rolling programme on the level of flat production arising from tenders for railway property development by the Company for the three succeeding years (on a financial year basis). The level of flat production (rounded to the nearest 100) arising from tenders for railway property development in each of these three years shall be reviewed, before the Government's Application List for Land Sale is finalised and announced in February/March each year. The first year of the three-year rolling programme shall be binding on the Company. The agreed level of flat production arising from tenders for railway property development may be revised as and when necessary, if this is mutually agreed by the Government and the Company. The annual exercise shall be initiated by the Government in the last quarter of each calendar year, for conclusion before the end of that year. For the avoidance of doubt, the first such annual exercise shall be initiated by the Government on or around the September that first occurs after the Merger Date.

Other Property Related Matters: The Operating Agreement in so far as it relates to land for new projects, property development rights, land premium amounts and consultation on new projects shall continue to apply. The Government also agrees that the land premium amounts payable by the Company will be assessed on a "full market value" basis ignoring the presence of the railway for property development rights in relation to the Category 4 Properties other than the property known as "Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories".

Employee Related Matters: On the Merger Date, the Company shall sign, seal and deliver a deed poll in favour of Relevant Frontline Staff. The deed poll provides that the Company shall not terminate the employment contract of any Relevant Frontline Staff member for any reason that relates to the process of integrating the operations of the Company and KCRC pursuant to the Rail Merger.

Fare Reductions: The Company shall, in respect of the Integrated Railway (with the exception of the Airport Express, Light Rail, cross-boundary trips to/from Lo Wu/Lok Ma Chau and intercity trains):

- (i) remove the second boarding charge of HK\$1-7 for adults, and remove the corresponding second boarding charge in respect of Concession Fares and Student Fares;
- (ii) reduce all adult Octopus fares by HK\$0.20;
- (iii) reduce the adult fares for all journeys with fares at or above HK\$12 by an additional HK\$1;
- (iv) for each adult journey of HK\$12 or above, if (i) to (iii) above when combined result in less than a 10% fare reduction for that journey, procure that there shall be a further reduction to achieve a minimum of a 10% fare reduction for that journey;
- (v) for each adult journey of between HK\$8.50 and HK\$11.90 (inclusive), if (i) and (ii) when combined result in less than a 5% fare reduction for that journey, procure that there shall be a further reduction to achieve a minimum of a 5% fare reduction for that journey;
- (vi) procure that the dollar amount of reductions for Concession Fares shall be half of the adult fare reductions; and

- (vii) procure that the dollar amount of reductions for Student Fares shall be half of the adult fare reductions for journeys taken wholly within the MTRC Railway, the dollar amount of reductions for Student Fares shall be the same as for the adult fare reductions for journeys taken wholly within the KCRC Railway and the percentage fare reductions for Student Fares shall be the same as the corresponding adult fare reductions for journeys involving an interchange between the MTRC Railway and the KCRC Railway.

Application of Fare Reductions: The timing of the implementation of the above fare reductions shall be as follows:

- The fare reductions shall all apply to Octopus users on and from the Merger Date.
- The fare reductions referred to in (i) shall apply to single journey ticket users on and from a date falling within one year from the Merger Date.
- For the period from (and including) the Merger Date to (but excluding) the date on which the integrated ticketing system for single journey ticket users (as referred to in the section headed “seamless interchange programme” above) is implemented, the fare reductions referred to in (iii), (iv) and (v) above (and (vi) and (vii) to the extent they relate to (iii), (iv) and (v)) shall apply only to single journey ticket users travelling within a single system provided that each fare reduction resulting from the application of (iv) and (v) (and (vi) and (vii) above to the extent they relate to (iv) and (v)) shall be rounded up or down (as the case may be) to the nearest interval of HK\$0.50.
- From (and including) the date on which the integrated ticketing system for single journey ticket users (as referred to in the section headed “seamless interchange programme” above) is implemented, the fare reductions set out in clauses (iii), (iv) and (v) above (and (vi) and (vii) to the extent they relate to (iii), (iv) and (v)) shall apply to all single journey ticket users provided that each fare reduction resulting from the application of (iv) and (v) (and (vi) and (vii) above to the extent they relate to (iv) and (v)) shall be rounded up or down (as the case may be) to the nearest interval of HK\$0.50.

For one year commencing on the Merger Date, the Company shall provide an Octopus concessionary fare of HK\$2 for all journeys on the Integrated Railway made by the elderly (being persons aged 65 or above) on Sundays and public holidays.

The Company shall maintain the status quo as at the date of the Memorandum of Understanding with respect to Student Fares discounts by continuing to provide a 50% discount on Student Fares for the MTRC Railway and no discount on Student Fares for the KCRC Railway, subject to the Fare Adjustment Mechanism applying to the Student Fares from and including the Merger Date.

The Company has agreed that it will not increase fares to which the Fare Adjustment Mechanism (the terms of which are provided in the Operating Agreement) applies until after 30 June 2009. For the period ending on the Merger Date, KCRC shall not increase fares for the KCRC Railway.

Shatin to Central Link: The proposed SCL project consists of an extension of the existing MOSR from Tai Wai to Hung Hom and an extension of the existing East Rail

from Hung Hom to Central. The Transport and Housing Bureau stated in a paper to LegCo dated 16 July 2007 that “*The Administration has promised to make a decision on the way forward, including the scheme and timetable for the SCL within six months after the completion of the legislative process for the rail merger*”. If, in its absolute discretion, the Government decides to implement the SCL, the SCL shall be treated in the same way as a New Separate Project in accordance with the Operating Agreement, as further described below under the section headed “New Projects”, except that the invitations referred to therein shall be to the Company only. The Kwun Tong Line extension shall be treated as a New MTR Project in accordance with the Operating Agreement, as further described below under the section headed “New Projects”.

KCRC’s Debt and Other Financing Obligations: Subject to provisions relating to the CBLs, KCRC shall be responsible for its obligations under the KCRC Financing Documents; and KCRC shall remain party to the KCRC Financing Documents and shall comply therewith. None of the KCRC Financing Documents shall be vested into or be novated to the Company.

KCRC’s Cross Border Leases: The arrangements regarding the CBLs shall be governed by the Merger Framework Agreement, the US CBL Assumption Agreements and the US CBL Allocation Agreement. The Merger Framework Agreement contains certain representations, warranties and indemnities given by KCRC and the Government in relation to compliance with the CBLs.

Third Party Claims: On and from the Merger Date, KCRC shall continue to be responsible for all KCRC Claims and, unless KCRC and the Company agree otherwise, all Railway Project Claims. The Company shall be responsible for all MTR Claims.

Name of the Company: On the Merger Date, the Company shall retain its English name but, pursuant to the Rail Merger Ordinance, its Chinese name shall be changed to “香港鐵路有限公司”.

Government Support: If, on or after the Merger Date, the Government proposes to cease to be the majority shareholder of KCRC, the Government and the Company shall, prior to the Government so ceasing to be the majority shareholder of KCRC, agree arrangements designed to provide adequate comfort to the Company as to KCRC’s performance of its obligations to the Company under the Transaction Agreements.

(B) Service Concession Agreement

The Service Concession Agreement was entered into on the Signing Date between the Company and KCRC.

The Service Concession Agreement contains detailed provisions in relation to the grant and operation of the Service Concession, including in relation to:

- The grant of the Service Concession to the Company to access, use and operate the Concession Property.
- The grant of a licence to access and use certain KCRC railway land.

- The term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the Concession Property upon expiry or termination.
- The provision of the KCRC Services by the Company to the Required Standards.
- The payments of the initial upfront payment of HK\$4.25 billion, the Fixed Annual Payments and the Variable Annual Payments as further described in the section above headed "Payments".
- KCRC remaining the legal and beneficial owner of the Concession Property as at the Merger Date (known as "Initial Concession Property") and the Company being the legal and beneficial owner of Additional Concession Property.
- The regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the Concession Period.
- The rights and restrictions of the Company and KCRC in relation to the Concession Property (including, in relation to maintenance, disposals, security, non-interference and insurance).
- The arrangements in relation to intellectual property.
- Subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the Concession Property and the land on which any of the Concession Property is located during the Concession Period.
- The arrangements for the return of Concession Property at the end of the Service Concession and mutual access arrangements which would be applicable if the Service Concession is terminated but the Company continues to operate the MTRC Railway.

(C) Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on the Signing Date between the Company and KCRC.

Sale and Purchase of Purchased Rail Assets: The Company has agreed to purchase and KCRC has agreed to sell the Purchased Rail Assets. The Purchased Rail Assets include (in each case as more particularly defined in the Sale and Purchase Agreement) all the property and assets of KCRC, shares in the KCRC Subsidiaries (which subsidiaries hold, amongst other things, the Category 1A Properties and act as property managers), and all those contracts of KCRC which are to be vested (by statute), novated and assigned to the Company with effect from the Merger Date (including, business plant and machinery, tools and equipment, stock, stores and spares, intellectual property and business information and records) but excluding the Category 1 Properties, the Category 2 Properties, the Category 3 Properties, the Excluded Assets, the Concession Property and the West Rail Agency Agreement.

Consideration: The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) forms part of the initial upfront payment of HK\$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries forms part of the consideration for the Property Package.

Inter-group guarantees: KCRC is required to use all reasonable endeavours to procure the discharge of each guarantee, indemnity, assurance, undertaking, commitment or other security obligation granted or entered into by any KCRC Subsidiary in relation to any obligation or liability of KCRC or any of its subsidiaries (excluding the KCRC Subsidiaries) at KCRC's cost.

The Company is required to use all reasonable endeavours to procure the discharge of each guarantee, indemnity, assurance, undertaking, commitment or other security obligation granted or entered into by KCRC or any of its subsidiaries (excluding the KCRC Subsidiaries) in relation to any obligation or liability of any of the KCRC Subsidiaries at the cost of the Company.

(D) Operating Agreement

The Operating Agreement was entered into on the Signing Date between the Company and the Secretary for Transport and Housing for and on behalf of the Government as contemplated in the MTR Ordinance.

The Operating Agreement is based closely on the Existing Operating Agreement. The Operation Agreement differs from the Existing Operating Agreement to provide for, amongst other things, the nature of the combined MTRC Railway and KCRC Railway. The Operating Agreement includes terms relating to:

- The extension of the Franchise.
- The requirements on the Company in relation to:
 - Electric power supply.
 - Control centres.
 - Monitoring environmental conditions.
 - Accommodation, facilities and means of communication for the Hong Kong Police Force on the railway and the railway premises.
 - Procedures relating to the notification of the Commissioner for Transport and the Commissioner of Police in circumstances such as emergency closures of stations.
 - Hours of operation and service capacity.
 - Performance requirements.
 - Customer service pledges.
 - Safety management.

- Land for New Projects, property development rights and land premium amounts.
- Compensation which may be payable under the MTR Ordinance to the Company under the Franchise.
- Safety standards relating to intercity services and third party trains.

Fare Adjustment Mechanism: The Operating Agreement also contains the terms of the Fare Adjustment Mechanism. The principal terms are summarised as follows:

(a) *Direct drive fare adjustment formula*

A “direct drive” fare adjustment formula will be adopted. The FAM will provide that any adjustment to specified fares should be linked to changes in the Government Composite Consumer Price Index and changes in the Nominal Wage Index (Transport Services Sector) published by the Census & Statistics Department of Government, and, starting from the sixth year following the Merger Date, taking into account a productivity factor.

The Fare Adjustment Mechanism will work as follows:

“Overall weighted fare adjustment rate = $0.5 * \Delta \text{CCPI} + 0.5 * \Delta \text{wage index} - t$ ”

where:

“Overall weighted fare adjustment rate” refers to the basket of specified “fares” on the Integrated Railway as set out in (b) below;

“ ΔCCPI ” means the yearly percentage change in the Government Composite Consumer Prices Index;

“ $\Delta \text{wage index}$ ” means the yearly percentage change in the Nominal Wage Index (Transport Services Sector); and

“ t ” is a productivity factor. The purpose of “ t ” is to incentivise the Company to achieve productivity gains. “ t ” will be deemed to be zero in the first five years following the Merger Date. “ t ” will have a value of 0.1% starting from the sixth year following the Merger Date. The value of “ t ” will not be subject to review until after the ninth anniversary of the Merger Date under the agreed review mechanism for the FAM.

(b) *Applicability of the Fare Adjustment Mechanism*

The FAM will, from the Merger Date, apply to specified fares on all existing and new railway lines on the Integrated Railway (other than the Airport Express Line, Ngong Ping 360, the intercity trains and those new railway lines which are New Separate Projects not intended for use by daily commuters for domestic travel. The inclusion or otherwise of such New Separate Projects will be agreed with the Government on a case-by-case basis). Light Rail and TSA Buses shall be subject to the application of FAM from the Merger Date.

For adjustments to fares of the Airport Express Line, the Company shall be subject to consultation requirements which are substantially the same as those set out in the Existing Operating Agreement.

The definition of “fares” for the purposes of the FAM shall include monthly passes (excluding promotions) and any “time of day” surcharge and/or discount introduced/removed by the Company (such as peak surcharges and non-peak discounts), but will exclude any promotional fares.

The Company can adjust certain fares within ± 5 percentage points from the overall fare adjustment level determined by the FAM formula (provided that such fares may not be increased if the overall fare adjustment level is a negative number), subject to overall compliance of its specified fare basket with the FAM.

- (c) *Trigger mechanism of fare adjustment.* If, in a given year, the overall fare adjustment rate under the FAM is within the range of $\pm 1.5\%$, there shall be no fare adjustment and the unadjusted percentage shall be rolled over to the next annual fare review.
- (d) *Adjustment of fares:* Fares subject to the FAM shall be adjusted annually in accordance with the FAM. None of the Company’s fares which are subject to the FAM, other than “time of day” surcharge or discounts, shall be adjusted more than once in any given year.
- (e) *Independent third party certifications:* No later than two weeks prior to notifying the Transport Advisory Committee and the LegCo Transport Panel and making a public announcement of yearly fare adjustments made under the FAM, the Company shall provide to the Government two independent third party certifications with supporting data that the fare adjustments are in compliance with the FAM.
- (f) *Review of FAM:* The FAM shall be subject to review every five years upon request by either the Company or the Government. If the Company and the Government do not reach agreement on amendments to the FAM within a specified period after commencement of the review, the prevailing FAM shall continue to apply.
- (g) *Introduction or withdrawal of fares subject to the Fare Adjustment Mechanism:* For the introduction or withdrawal of fares subject to the FAM, the Company shall (i) consider the public acceptability of any proposed change; (ii) notify and consult with the Transport Advisory Committee and the LegCo Transport Panel on the price, terms and date of the introduction or withdrawal of the relevant fares; and (iii) make a public announcement of the proposed change no later than three weeks prior to the introduction or withdrawal of the relevant fares.

New Projects

- (a) *General:* Subject to the MTR Ordinance, it is acknowledged that, when undertaking New Projects and/or operating New Railways, the Company will require an appropriate commercial rate of return. The Government agrees that it will not require the Company to construct any New Project and/or

operate any New Railway except in certain circumstances and provided that the parties agree on the commercial rate of return. The Government acknowledges that, in order for particular New Projects and/or New Railways to make a commercial rate of return and in order for the Company to maintain its financial standing and profile, financial and other support for those New Projects and/or New Railways from the Government may be required. If the Government invites the Company to operate a New Railway pursuant to a New KCR Project or a New Separate Project, under a service concession to be granted to the Company by KCRC, the Government or a Government entity, the Company shall be obliged to operate the New Railway under the concession approach in accordance with the Operating Agreement and the relevant future agreement relating to that service concession (which shall provide for the payment of Additional Concession Payments as further described below in the section headed "Additional Concession Payments").

- (b) *Natural extensions*: In relation to natural extensions of the MTRC Railway, the arrangements contained in the Existing Operating Agreement, and the commitments given by the Government at the time of the Company's initial public offering relating to project returns, will be preserved. In relation to natural extensions of the KCRC Railway, the Government may adopt the ownership approach (i.e. with the operator responsible for the finance, construction and operation of the New Railway) or the concession approach (i.e. with the operator responsible for the operation of the New Railway through a service concession arrangement). Under the ownership approach, the Company would be exclusively invited to submit a proposal to the Government. If the Company and the Government cannot agree on terms within a reasonable period, the Government may either invite third parties each to submit a proposal to undertake the project under the ownership approach or invite the Company to operate the railway under a service concession arrangement. For any New KCR Project in respect of which the Government decides to adopt the concession approach and the Government is considering granting the service concession to the Company, the Government shall invite the Company to operate the New Railway through the Service Concession.
- (c) *New Separate Projects*: In relation to New Separate Projects, the Government may decide to adopt the ownership approach or the concession approach. Under the ownership approach, the Government may decide either to invite the Company to submit a proposal, or award the new project through an open tender process. Under the concession approach, the Government may decide to invite the Company and/or third parties to operate the New Railway under the service concession approach.
- (d) *Additional Concession Payments*: Unless otherwise agreed by the Company and the Government, for each New Separate Project or a natural extension of the KCRC Railway that the Government invites the Company to operate under the service concession approach, the Company shall operate the New Railway in accordance with the following financial terms. Additional Concession Payments are to be determined on the basis of 90% of the discounted Net Cash Flow of the New Project, being discounted at a discount rate which reflects the Company's proposed commercial rate of return in relation to the New Railway (so as to enable the Company to make a commercial rate of return) and, where KCRC is the owner of the New Railway,

are to be reflected in a similar structure as the payment structure under the Service Concession Agreement being in the form of fixed annual payments and variable annual payments.

- (e) *Entrustment arrangement.* The Company shall be entrusted with the design and construction of the new projects which are to be operated by the Company through a service concession agreement, subject to the Government's approval and the Company and the Government agreeing on a price.

(E) KSL Project Management Agreement

The KSL Project Management Agreement was entered into on the Signing Date between the Company and KCRC.

Pursuant to the terms of the KSL Project Management Agreement, the Company is appointed:

- To manage the performance of KCRC's principal obligations to the Government in relation to the design and construction of the KSL (other than obligations relating to payment).
- To act as engineer under the various KSL construction contracts.
- To act as KCRC's representative under the various KSL consultancy agreements.

The Company itself will not construct, nor be responsible for the costs of, the KSL works.

In return for the performance of these services, the Company will receive a project management fee of approximately HK\$680 million and, if the construction of the KSL is completed ahead of time and under budget, an incentive payment (calculated with reference to the amount by which the final outturn cost of the project is under budget) of up to HK\$110 million. The KSL Project Management Agreement was negotiated on an arms' length basis and is on no less than normal commercial terms. The current internal KCRC budget for project management costs was analysed in detail and formed the basis of the fee to be received by the Company.

(F) West Rail Agency Agreement

The West Rail Agency Agreement (and related agreements) was entered into on the Signing Date between the Company, KCRC and certain KCRC subsidiary companies (the "**West Rail Subsidiaries**").

Pursuant to the terms of the West Rail Agency Agreement, the Company will be appointed:

- To act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

- To act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive from the West Rail Subsidiaries a fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs incurred in relation to the West Rail Agency Agreement. The West Rail Agency Agreement was negotiated on an arms' length basis and is on no less than normal commercial terms.

(G) Outsourcing Agreement

The Outsourcing Agreement was entered into on the Signing Date between the Company and KCRC.

After the Merger Date, for a period of two years, KCRC will, pursuant to the terms of the Outsourcing Agreement, outsource certain financial and administrative functions to the Company.

Pursuant to the terms of the Outsourcing Agreement, the Company will:

- Provide a number of financial and administrative services to KCRC.
- Provide certain staff to enable KCRC to operate after the Rail Merger.
- Receive an annual fee of not more than HK\$20 million from KCRC.

The scope of the services to be provided by the Company will include services relating to financial control, information technology, company secretarial, legal and other corporate functions, human resources, office administration and management of claims. The Outsourcing Agreement was negotiated on an arms' length basis and is on no less than normal commercial terms. A detailed breakdown of the services to be provided and the manpower required to provide such services was analysed and formed the basis on which the fee was calculated.

(H) Property Package Agreements

For the purposes of the Property Package Agreements, the Property Package has been grouped into 4 categories. The properties in each category are listed in the definitions section of this announcement and details of each of the Property Package Agreements will be more particularly detailed in the EGM Circular. The types of property comprised in each category are as follows:

- *Category 1 Properties*; Category 1 Properties are investment properties comprising residential units, commercial accommodation and car parking spaces currently held by KCRC under private treaty grants ("**PTGs**") granted by the Government.

Certain Category 1 Properties (being the Category 1B Properties) will be assigned by KCRC to the Company. The other Category 1 Properties (being the Category 1A Properties) will be acquired by the Company through its

acquisition of the KCRC Subsidiaries under the Sale and Purchase Agreement as further described above under the section headed "Sale and Purchase Agreement".

- *Category 2 Properties*; Category 2 Properties are investment properties comprising residential and commercial accommodation and car parking spaces currently held by KCRC under vesting deeds pursuant to the KCRC Ordinance. As the Category 2 Properties are held pursuant to the KCRC Ordinance (and not under PTGs or the Government leases), they do not have lot numbers ascribed to them by the Lands Department and therefore (unlike properties held under PTGs or the Government leases) cannot be transferred from KCRC to the Company by way of assignment.

Arrangements have been put in place under which the Government will grant Government leases in respect of the Category 2 Properties (so that the Category 2 Properties can be owned by the Company (and the railway part of the relevant Government leases can be owned by KCRC). This will be effected by the Government granting Government leases:

- (i) (in respect of Citylink Plaza and Hung Hom KCRC Building) to KCRC, with a subsequent transfer of the non-railway parts to the Company; and
- (ii) (in respect of Trackside Villas) to the Company.

Until the grant of such Government leases, interim arrangements will be put in place to ensure the Company receives the income derived from the Category 2 Properties as from the Merger Date.

- *Category 3 Properties*; Category 3 Properties are the non-railway parts of specified development sites currently held by KCRC under PTGs where joint venture agreements have been entered into between KCRC and developers.

The Company has entered into agreements with KCRC in respect of each Category 3 Property, under which the Company will manage the relevant Category 3 Property (and exercise and perform KCRC's rights and obligations under the joint venture agreements) in return for a fee from KCRC. The amount of the fee in respect of each Category 3 Property is expected to be similar in quantum to the profits made by KCRC in respect of such Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC).

- *Category 4 Properties*; Category 4 Properties are specified potential development sites which the Government has undertaken (subject to specified exclusions and payment of land premium) to grant to the Company by way of PTGs. The Company shall be obliged to transfer the railway parts of the potential development sites to KCRC.

The Property Package Agreements comprise each of the documents and arrangements which are required to be executed by the Company and/or the Government and/or KCRC to effect the agreed arrangements in respect of the Property Package.

(I) Land Comfort Letter

A letter from the Government to KCRC dated 3 August 2007, pursuant to which the Government has agreed to extend the period of certain of KCRC's land interests during the Concession Period, subject to the necessary approvals and procedures, to coincide with the duration of the Service Concession.

(J) KCRC Cross Border Lease Agreements*US CBL Assumption Agreements*

The US CBL Assumption Agreements are expected to be entered into prior to the Merger Date between KCRC, the Company and various other counterparties to KCRC's cross border lease agreements.

Pursuant to each CBL Assumption Agreement, the Company will undertake to specified counterparties that it shall jointly (together with KCRC) be liable to those counterparties in respect of KCRC's obligations under KCRC's cross border lease agreements to those counterparties, and shall have the right (together with KCRC) to exercise any of KCRC's rights under its cross border lease agreements.

US CBL Allocation Agreement

The US CBL Allocation Agreement is expected to be entered into between KCRC and the Company on or about the same date as the US CBL Assumption Agreements.

Pursuant to the US CBL Allocation Agreement, rights, obligations and risk between KCRC and the Company (each of whom is jointly liable to specified counterparties, as referred to in the section above headed "US CBL Assumption Agreements") are delineated and allocated between KCRC and the Company.

Indemnities have been provided in relation to breaches of the CBLs, details of which are provided in the section above headed "Merger Framework Agreement".

8. CURRENT BUSINESS OF THE COMPANY

The Company was incorporated on 30 June 2000. It succeeded the Mass Transit Railway Corporation which was established in 1975 as a government wholly-owned statutory corporation. The principal business of the Company is to operate the MTRC Railway. Following an initial public offering, the Shares were listed on the Stock Exchange on 5 October 2000.

The Company currently operates a railway network which has a 91.0 kilometre route with 53 stations. With a weekday daily patronage of over 2.5 million passengers, the system is one of the most intensively utilised systems in the world.

Besides railway operations, the Company is also actively involved in the development of key residential and commercial property projects above and adjacent to existing stations and along new line extensions as well as many other commercial activities associated with the railway including rental of retail, ATM banking facilities, advertising space and infrastructure for personal telecommunication services. It also provides various consultancy services to organisations worldwide.

The operations of the Company and the MTRC Railway are currently subject to the terms and conditions contained, amongst other things, in the MTR Ordinance and the Existing Operating Agreement.

9. CURRENT BUSINESS OF KCRC

The first section of the Kowloon-Canton Railway opened in 1910. KCRC was established on 24 December 1982 for an unlimited duration pursuant to the KCRC Ordinance as a statutory corporation to operate the Hong Kong section of the Kowloon-Canton Railway.

KCRC currently provides three domestic passenger rail services: East Rail (including Ma On Shan Rail and Lok Ma Chau Spur Line which is due to open in August 2007), West Rail and Light Rail. East Rail, a suburban mass transit service, is Hong Kong's primary north-south transportation artery. It operates between East Tsim Sha Tsui and the Mainland boundary at Lo Wu. Ma On Shan Rail provides an interchange with the main East Rail alignment at Tai Wai and runs to Ma On Shan. West Rail is a mass transit service running between the North-West New Territories and Kowloon. It links Hong Kong's growing new towns and the urban centre. Light Rail, a partially road-based system, is the major mode of transport within the North West New Territories and also provides a feeder service for West Rail. TSA Buses support the West Rail and Light Rail networks by providing feeder services.

In addition to its core territorial rail and bus services, KCRC also operates passenger through train and freight services on East Rail to and from various cities in the Mainland.

KCRC has been involved in the development of properties along its railway lines with established property developers since 1985. KCRC has sold most property developments, but retains a certain amount for operational purposes and for leasing to tenants. KCRC lets commercial premises in stations, commercial offices and shopping centres as well as residential units. At the end of 2006, KCRC's occupancy rate was 94% in relation to its commercial premises, 100% in relation to its office premises and 73% in relation to its residential units.

KCRC also derives income from duty free business, Newline Express and various sources of advertising promotional activities at its properties and from various telecommunications services such as optical fibre leasing and the provision of mobile phone coverage in stations, tunnels and along railway tracks.

The operations of KCRC are currently subject to the terms and conditions of, amongst other things, the KCRC Ordinance and associated regulations.

The net profit attributable to KCRC's total assets, as shown in its annual report (and as will be further detailed in the EGM Circular) for the year ended 31 December 2005 was HK\$317 million and for the year ended 31 December 2006 was HK\$278 million.

The book value of KCRC's total net assets as at 31 December 2006 was HK\$59,933 million.

Shareholders should note that as detailed in the section above headed "Rail Merger Package", the Rail Merger does not involve the acquisition of all of KCRC's assets.

10. IMPLICATIONS UNDER THE LISTING RULES

In this section the terms "**associate**", "**connected person**", "**connected transaction**" and "**continuing connected transaction**" have the meaning ascribed to them in the Listing Rules.

Very Substantial Acquisition

The Rail Merger and the entering into of the Transaction Agreements together constitute a “very substantial acquisition” for the Company under Chapter 14 of the Listing Rules and are therefore, amongst other things, subject to the approval of the Independent Shareholders.

Connected Transactions

As at 30 June 2007, the Government is a substantial shareholder of the Company (holding approximately 76.7 % of the Shares through the Financial Secretary Incorporated) and the sole shareholder of KCRC (through the Financial Secretary Incorporated) (making KCRC an “associate” of the Government for the purposes of the Listing Rules). Therefore, the Rail Merger and the entering into of the Transaction Agreements also constitute “connected transactions” pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules. As the Rail Merger falls outside the *de minimis* thresholds in Rule 14A.31(2) and 14A.32 of the Listing Rules, it is subject to the approval of the Independent Shareholders.

Any connected person with a material interest in a connected transaction and any shareholder (together with its associates) with a material interest in the connected transaction, is required to abstain from voting on resolutions approving the transaction.

Accordingly, the Government as a connected person and a Shareholder with a material interest in the transaction is not an Independent Shareholder and (together with its associates) will be required to abstain from voting at the Merger EGM in respect of the Rail Merger.

Continuing Connected Transactions

Given the unique nature of the Company and its business and its on-going dealings with the Government (and its associates), at the time of the Company's initial public offering and listing on the Stock Exchange, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements of the Listing Rules relating to connected transactions (subject to certain conditions) which would otherwise apply to certain transactions with the Government (and its associates including KCRC). That waiver was renewed in and updated in 2004 subject to the Company not being permitted to rely on it for the purposes of the Rail Merger. As a result, as noted above, the Rail Merger and the entering into of the Transaction Agreements together are subject to the approval of the Independent Shareholders.

As a result of the Rail Merger, the Company will, with effect from the Merger Date, be a party to a number of additional continuing connected transactions not currently covered by the existing waiver. Additional continuing connected transactions will arise after the Rail Merger with respect to the obligations of the Company under:

- the Merger Framework Agreement, other than those arrangements which will be fully implemented by the Merger Date;
- the Operating Agreement, including the requirement to operate the Integrated Railway in accordance with the Operating Agreement during the period of the Franchise as it relates to the Integrated Railway;
- the Service Concession Agreement, including the requirement to make the Concession Payments during the Concession Period;

- the KSL Project Management Agreement, which will continue until the construction of Kowloon-Southern Link has been completed;
- the West Rail Agency Agreement, which will continue in force until the West Rail property developments have each been completed;
- the US CBL Assumption Agreements and the US CBL Allocation Agreement, which are each expected to last for the duration of the underlying CBLs;
- the Outsourcing Agreement, which will continue for a period of 2 years from the Merger Date;
- those existing contracts between KCRC and the Government (and/or its associates) which are vested by law to the Company; and
- the Property Package Agreements, which will contain the terms on which the relevant land and land interests will be held on an on-going basis.

The Company has made a submission to the Stock Exchange to request that a new waiver from strict compliance with Chapter 14A of the Listing Rules be granted (on substantially similar terms and conditions as the existing waiver) in relation to additional continuing connected transactions which arise (or may arise) as a result of the Rail Merger.

Details of the results of the Company's submission and further details in respect of the additional continuing connected transactions will be set out in the EGM Circular as well as any further announcement which may be required by the Listing Rules in this regard.

11. INDEPENDENT BOARD COMMITTEE

The Company has established an Independent Board Committee to advise the Independent 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 the Shareholders as a whole and to advise the Independent Shareholders how to vote, taking into account the recommendations of the Independent Financial Adviser, in respect of the EGM Resolution.

12. INDEPENDENT FINANCIAL ADVISER

Merrill Lynch (Asia Pacific) Limited has been appointed as Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent 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 the Shareholders as a whole and to advise the Independent Shareholders how to vote in respect of the EGM Resolution.

13. EXTRAORDINARY GENERAL MEETING AND SHAREHOLDERS' CIRCULAR

A circular containing, amongst other things, (i) details of the Rail Merger and the Transaction Documents (ii) a letter of advice from the Independent Board Committee, (iii) a letter of advice from the Independent Financial Adviser, and (iv) a notice to the Shareholders convening the Merger EGM, will be despatched to the Shareholders as soon as practicable.

14. GENERAL

There is no assurance that the Rail Merger will proceed. Investors are advised to exercise caution in dealing in the Shares. Further details of the Rail Merger will be contained in the EGM Circular.

For the avoidance of doubt, this announcement is for information purposes only and is not an announcement of a proposed or possible offer of Shares within the meaning of the SFC Code on Takeovers and Mergers.

15. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Additional Concession Property” means (a) any asset that is capitalised on the Company’s balance sheet and which is acquired, purchased, hired, produced, created, constructed, developed, processed or adapted for use by the Company solely or primarily to maintain, repair, replace or improve any Concession Property; and (b) any asset that is capitalised on the Company’s balance sheet and which is delivered to KCRC prior to the Merger Date but in respect of which, and to the extent that, the Company makes payment therefor after the Merger Date;

“Board” means the board of Directors;

“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;

“Category 1 Properties” means the Category 1A Properties and the Category 1B Properties;

“Category 1A Properties” means (a) 1st Floor, Pierhead Garden Pierhead Plaza, Nos. 168 – 236 Wu Chui Road, Tuen Mun, New Territories: commercial areas and car parking spaces; (b) Sun Tuen Mun Centre, Nos. 55 – 65 Lung Mun Road, Tuen Mun, New Territories: commercial areas, kindergarten and private parking areas; and (c) Ground Floor and Lower Podium Level, Hanford Garden, No. 333 Castle Peak Road, Tuen Mun, New Territories: commercial areas and car parking spaces;

“Category 1B Properties” means (a) Royal Ascot, No. 1 Tsun King Road, Shatin, New Territories: commercial accommodation and kindergarten; and (b) Royal Ascot, No. 1 Tsun King Road, Shatin, New Territories: residential units and car parking spaces;

“Category 2 Properties” means: (a) Citylink Plaza, No. 1 Sha Tin Station Circuit, Sha Tin, New Territories: retail floor, 1st to 6th Floors; (b) Hung Hom KCRC Building, No. 8 Cheong Wan Road, Hung Hom, Kowloon: portions of Ground Floor and 1st Floor; and (c) Trackside Villas, No. 4105

Tai Po Road, Tai Po, New Territories: staff quarters and club house;

- “Category 3 Properties”** means (a) Ho Tung Lau (Site A), East Rail, Sha Tin Town Lot No. 470, New Territories; (b) Wu Kai Sha, Ma On Shan Rail, Sha Tin Town Lot No. 530, New Territories; and (c) Tai Wai Maintenance Centre, Ma On Shan Rail, Sha Tin Town Lot No. 529, New Territories;
- “Category 4 Properties”** means (a) Che Kung Temple, Ma On Shan Rail, Sha Tin, New Territories; (b) Tai Wai Station, Ma On Shan Rail, Sha Tin, New Territories; (c) Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories; (d) Kowloon Southern Link – Site C, Tsimshatsui, Kowloon; and (e) Kowloon Southern Link – Site D, Tsimshatsui, Kowloon;
- “CBLs”** means the US cross border leases entered into between KCRC and certain counterparties as specified in the Merger Framework Agreement;
- “Concession Fares”** means fares in respect of journeys on the KCRC Railway and/or the MTRC Railway for (a) children aged 3 or above but below the age of 12 provided that a child is deemed to be aged 3 or above if his/her height is 95 centimetres or above; and (b) the elderly (being persons aged 65 and above);
- “Concession IP”** means certain intellectual property rights owned by KCRC as set out in the Service Concession Agreement;
- “Concession Period”** means an initial period of 50 years from the Merger Date, as may be extended pursuant to the Service Concession Agreement;
- “Concession Property”** means (a) the Concession Property as at the Merger Date, as described in the Service Concession Agreement; (b) any Additional Concession Property; and (c) with respect to a new project, the property designated in the relevant future agreement, and for the avoidance of doubt, it does not include the Excluded Assets, the Purchased Rail Assets or the Category 1 Properties and Category 2 Properties or any intellectual property rights other than Concession IP;
- “Directors”** means the directors of the Company;
- “EGM Circular”** means the circular to be issued by the Company to the Shareholders in relation to the Merger EGM;
- “EGM Resolution”** means the resolution to be considered and, if thought fit, approved at the Merger EGM;
- “East Rail”** means the railway line connecting Lo Wu and East Tsim Sha Tsui (or, upon commencement of operations on the KSL, Hung Hom) starting from and ending in Hong Kong, used for the conveyance of passengers within Hong Kong and, for the avoidance of doubt, does not include any of the intercity passenger services and freight

services on such railway line;

“ERE”	means the railway extension connecting East Tsim Sha Tsui and Hung Hom and known as East Rail Tsim Sha Tsui Extension;
“Excluded Assets”	means (i) all contracts to which KCRC is a party, other than those contracts specified to be vested (by statute) in, novated or assigned to the Company; (ii) certain shares held in certain KCRC subsidiaries and other shares held by KCRC; (iii) certain receivables; (iv) cash in hand or at the bank, certificates of deposit, commercial paper and all other financial instruments and other cash equivalents, each as at the Merger Date (less certain amounts relating to security deposits, retention monies and advances); (v) KCRC’s rights to set off tax liabilities against its tax losses; (vi) the project agreement between KCRC and the Government in respect of the KSL and any related agreements; (vii) the Transaction Agreements; (viii) the KCRC Financing Documents and the loan agreement entered into between KCRC and West Rail Property Development Limited in respect of West Rail property developments; (ix) certain intellectual property owned by KCRC (including the Concession IP); (x) all insurance arrangements to which KCRC is a party; (xi) amounts recoverable in respect of taxation relating to the Purchased Rail Assets attributable to periods ended on or before, or transactions occurring on or before, the Merger Date; and (xii) all cash deposits made by KCRC or any of its subsidiaries in connection with the CBLs; (xiii) floors seven to ten (inclusive) of Citylink Plaza; (xiv) all expenditure incurred on or in relation to SCL and/or the Northern Link/Express Rail Link; (xv) all files and administrative records relating solely to the Excluded Assets; (xvi) all board minutes and board papers of KCRC; and (xvii) certain club memberships of KCRC;
“Existing Operating Agreement”	means the Operating Agreement dated 30th June 2000 between the then Secretary for Transport (on behalf of the Government) and the Company, as amended from time to time;
“Fare Adjustment Mechanism” or “FAM”	means the adjustment mechanism to be applied to certain of the Company’s fares after the Rail Merger as set out in the Operating Agreement;
“Fixed Annual Payment”	means a fixed annual payment to be made by the Company to KCRC in accordance with the Service Concession Agreement, being HK\$750 million per annum (as further described in the section above headed “Payments”);
“Franchise”	has the meaning given to “franchise” in the MTR Ordinance;
“Frontline Staff”	means those full-time non-managerial staff of KCRC and the Company (as the case may be) who are employed regularly and directly in the operations and maintenance of trains, stations, buses and vehicles; infrastructure maintenance; stores operations and security operations. Non-managerial staff refers to staff below Grade MG1 in the case of the Company and staff below Grade 8 in

the case of KCRC, who are employed on either continuous terms or on contract terms for a duration of 2 years or more;

“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;
“Incremental Revenues”	means the net fare revenues expected to be generated by the Company from the operation of the Integrated Railway (and the New Railway) and resulting from its operation of the New Railway and certain other net railway related revenues expected to be generated by the Company from its operation of the New Railway;
“Independent Board Committee”	means the committee of independent non-executive directors of the Company comprising Edward Ho Sing-tin (Chairman), Professor Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang, Lo Chung-hing and T. Brian Stevenson appointed in accordance with Listing Rule 13.39(6)(a);
“Independent Financial Adviser”	means Merrill Lynch (Asia Pacific) Limited, being an independent financial adviser, appointed in accordance with Listing Rule 13.39(6)(b);
“Independent Shareholders”	means all Shareholders other than the Government and its associates;
“Integrated Railway”	means the MTRC Railway and the KCRC Railway;
“KCRC”	means the Kowloon-Canton Railway Corporation wholly owned by the Financial Secretary Incorporated on behalf of Government in accordance with the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong);
“KCRC Bondholders”	means the holders of KCRC's HK dollar retail notes due 2008 and 2013; US dollar Global notes due 2010; Debt issuance programme US dollar notes due 2009 and 2014; and Debt issuance programme HK dollar notes due 2013;
“KCRC Claims”	means all Non-Project Claims made by third parties who are not related to the Company if the relevant cause of action arose before the Merger Date and the relevant claim is brought within the first three years following the Merger Date;
“KCRC Financing Documents”	means the agreements, documents or other instruments relating to financing arrangements to which KCRC is or becomes party (including, without limitation, loans, bonds, notes, finance or cross border leases, bank facilities, export credit agency facilities and swaps and derivative instruments and those financing arrangements described in the Merger Framework Agreement);

“KCRC Ordinance”	means the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) (as amended by the Rail Merger Ordinance), as amended from time to time;
“KCRC Property Subsidiaries”	means (i) Hanford Garden Property Management Company Limited; (ii) Pierhead Garden Management Company Limited; and (iii) Sun Tuen Mun Centre Management Company Limited;
“KCRC Railway”	means the railway system consisting of: (a) the “Kowloon-Canton Railway” as defined in the KCRC Ordinance (composed of the East Rail); (b) the Light Rail; (c) the intercity and freight rail system; (d) the ERE; (e) the MOSR; (f) the West Rail; (g) each of KSL and LMCSL on the date of its completion; and (h) any other railway which is designated as a “KCRC Railway” in any Supplemental Service Concession Agreement;
“KCRC Related Businesses”	means, at any particular time, the businesses related to the KCRC Railway and the TSA Buses which may include, without limitation, advertising, telecommunications, duty free, kiosk rental, station trading, car park rental, machine and terminal rental businesses (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 to be provided by the Company through the operation of the KCRC System;
“KCRC Subsidiaries”	means (i) Hanford Garden Property Management Company Limited; (ii) Pierhead Garden Management Company Limited; (iii) Royal Ascot Management Company Limited; (iv) Sun Tuen Mun Centre Management Company Limited; and (v) V-Connect Limited;
“KCRC System”	means: (a) the KCRC Railway; (b) the TSA Buses; and (c) the KCRC Related Businesses, from time to time;
“KSL”	means the railway line connecting Nam Cheong and Hung Hom known as the Kowloon Southern Link;
“KSL Project Management Agreement”	has the meaning ascribed to it in the section above headed “KSL Project Management Agreement”;
“LegCo”	means the Legislative Council of Hong Kong;
“Liaison Committee Letter”	means the letter so entitled dated the Signing Date from KCRC in favour of the Company and the Government;
“Light Rail”	means the light rail system serving Tuen Mun New Town and Yuen Long, also known as the “North-west Railway” (as defined in the KCRC Ordinance) but disregarding any extension thereof on or after the Merger Date;

“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Mainland”	means the mainland of the People’s Republic of China;
“Memorandum of Understanding”	means the confidential memorandum of understanding entered into on 11 th April 2006 between the Company and the Government in relation to the Rail Merger, as further described in the section above headed “Merger Framework Agreement”;
“Merger Date”	means the day appointed by the Secretary for Transport and Housing (pursuant to section 2 of the Rail Merger Ordinance) on which the Rail Merger Ordinance comes into operation;
“Merger EGM”	means the extraordinary general meeting of the Company to be held to seek approval from the Independent Shareholders for the Rail Merger;
“Merger Framework Agreement”	means the agreement entered into on the Signing Date between the Company, the Government and KCRC which documents the framework of the Rail Merger;
“MOSR”	means the railway line connecting Wu Kai Sha and Tai Wai;
“MTR Claims”	means all claims made on or after the Merger Date that are not KCRC Claims or Railway Project Claims, other than claims relating to any of the Excluded Assets;
“MTR Ordinance”	means the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) (as amended by the Rail Merger Ordinance), as amended from time to time;
“MTRC Railway”	means the “Mass Transit Railway” as defined in the MTR Ordinance, which, for the avoidance of doubt, excludes the KCRC Railway;
“Net Cash flow of the New Project”	means, the Incremental Revenues minus (i) the incremental operating costs and incremental on-going capital expenditure which are expected to be borne by the Company from the operation of the Integrated Railway (and the New Railway) and resulting from its operation of the New Railway; and (ii) the expected incremental tax charge which will need to be borne by the Company as operator of the New Railway and which is attributable to the New Railway;
“New KCR Project”	means any new railway project the scope of which includes the construction, operation and/or maintenance of (i) one or more new stations and (ii) new track work which extends an existing line which forms part of any KCRC Railway, or deviates from an existing line which forms part of any KCRC Railway, other than a new railway project the scope of which also includes the construction and/or operation of a transport interchange between a part of that railway project and a railway system other than any

KCRC Railway;

“New MTR Project”	means any new railway project the scope of which includes the construction, operation and/or maintenance of (i) one or more new stations and (ii) new track work which extends an existing line which forms part of the Mass Transit Railway, or deviates from an existing line which forms part of the Mass Transit Railway, other than a new railway project the scope of which also includes the construction and/or operation of a transport interchange between a part of that railway project and a railway system other than the Mass Transit Railway;
“New Project”	means any New MTR Project, New KCR Project or any New Separate Project;
“New Railway”	means the railway (or, where the context so requires, such portion thereof) to be constructed, modified, improved and/or extended (as the case may be) pursuant to a New Project;
“New Separate Projects”	means any new railway project which is neither a New MTR Project nor a New KCR Project;
“Non-Project Claims”	means claims made against KCRC or the subsidiaries of KCRC that are not Railway Project Claims;
“Octopus”	means the contactless smart card ticketing system in Hong Kong known as “Octopus” (or any replacement for such system);
“Operating Agreement”	means the operating agreement entered into on the Signing Date between the Company and the Government which, from and including the Merger Date, will be the Operating Agreement for the purposes of the MTR Ordinance as further described above in the section headed “Operating Agreement”;
“Property Enabling Works Development Sites”	means development sites at Ho Tung Lau (a), Wu Kai Sha (a), Tai Wai Maintenance Centre (a), Che Kung Temple, Tai Wai Station, Tin Shui Wai LR, KSL Site C, KSL Site D;
“Property Package”	means the package of property-related rights conferred on the Company pursuant to the Property Package Agreements and the Sale and Purchase Agreement;
“Property Package Agreements”	means each of the agreements or documents to be entered into in connection with the Category 1 Properties, the Category 2 Properties, the Category 3 Properties and the Category 4 Properties;
“Purchased Rail Assets”	means KCRC’s property, assets, shares and specified contracts as more particularly described above in the section headed “Sale and Purchase Agreement”;
“Rail Merger”	means the proposed merger of the operations of the Company and KCRC and the other transactions as documented in, or

contemplated by, the Transaction Documents;

- “Rail Merger Ordinance”** means the Rail Merger Ordinance (Ordinance No.11 of 2007);
- “Railway Project”** means any of West Rail, ERE, MOSR, the upgrade works to the Light Rail signalling system to be carried out under Contract Number DB2040, disregarding any extension thereof on or after the Merger Date; or KSL or LMCSL;
- “Railway Project Claims”** means all claims against KCRC or the subsidiaries of KCRC made by third parties who are not related to the Company in relation to any works undertaken or services provided in respect of the design, manufacturing, construction, testing or commissioning of any Railway Project (including, without limitation, claims in relation to land resumption and business interruption) (A) prior to the opening of that Railway Project for use by the public; or (B) that should, pursuant to the initial construction programme relating to that Railway Project, have been undertaken prior to the opening of that Railway Project for use by the public; or (C) during the defects liability period relating to such works or services referred to in (A) and / or (B);
- “Relevant Frontline Staff”** means (a) KCRC staff who, pursuant to the Rail Merger Ordinance, become employees of the Company on the Merger Date; and (b) staff of the Company who remain employees of the Company on the Merger Date, and who, in each case (i) were in employment as Frontline Staff on 11 April 2006, or become employed as Frontline Staff at any time between 11 April 2006 up to and including the Merger Date, even if subsequently transferred to a non-Frontline Staff role at the instigation of (1) KCRC (but only prior to the Merger Date) or (2) the Company (at any time). For the avoidance of doubt, Relevant Frontline Staff excludes those staff members of KCRC or the Company who cease to be Frontline Staff out of their own actions or initiative;
- “Required Standards”** means in relation to the MTRC Railway and/or the KCRC Railway and/or the TSA Buses (as the case may be), the safety, performance and other operational standards prescribed in the MTR Ordinance (including, without limitation, in relation to the TSA Buses in section 9(2) of the MTR Ordinance) and the Operating Agreement for the Integrated System from time to time (and any other instruments, agreements or other documents as agreed by the Government and the Company from time to time) (but, for the avoidance of doubt, excludes the “Customer Service Pledges” as defined in the Operating Agreement);
- “Sale and Purchase Agreement”** means the sale and purchase agreement entered into on the Signing Date between the Company and KCRC which documents the terms and conditions of the sale to the Company of the Purchased Rail Assets (or any part thereof) as further described in the section above headed “Sale and Purchase Agreement”;

“SCL”	means the proposed railway known as the Shatin to Central Link;
“Service Concession”	means a service concession and licence granted by KCRC to the Company under the Service Concession Agreement;
“Service Concession Agreement”	means the service concession agreement entered into on the Signing Date between the Company and KCRC which documents the terms and conditions of the Service Concession, as further described in the section above headed “Service Concession Agreement”;
“Shares”	means the ordinary shares of HK\$1.00 each in the capital of the Company;
“Shareholders”	means all registered holders of Shares;
“Signing Date”	means 9 August 2007;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Student Fares”	means fares in respect of journeys on the KCRC Railway and/or the MTRC Railway payable by persons who are aged from 12 to 25 enrolled on a full-time course in a school approved by the Company, and such person carries with him/her at the time of travel on the KCRC Railway and/or the MTRC Railway a personalised Octopus card with such person's student status encoded on it;
“Supplemental Service Concession Agreement”	means a supplemental service concession agreement in respect of any new project entered into between the Company and KCRC pursuant to Service Concession Agreement;
“Transaction Agreements”	means the Merger Framework Agreement, the Service Concession Agreement, the Sale and Purchase Agreement, the Operating Agreement, the Supplemental Service Concession Agreements (if any), the Job Security Deed Poll, the KSL Project Management Agreement, the West Rail Agency Agreement, the Property Package Agreements, the US CBL Assumption Agreements, the US CBL Allocation Agreement, the Outsourcing Agreement, the Liaison Committee Letter, the Land Comfort Letter, and any other document designated in writing as such by Government, the Company and KCRC, each (to the extent not defined elsewhere in this announcement) as defined in the Merger Framework Agreement;
“Transaction Documents”	means the Transaction Agreements and the Rail Merger Ordinance;
“TSA Buses”	means the “TSA bus service” as defined in the MTR Ordinance;
“Variable Annual Payment”	means a variable annual payment to be made by the Company to KCRC in accordance with the Service Concession Agreement (as further described above in the section headed “Payments”);

- “US CBL Allocation Agreement”** means the agreement so entitled expected to be entered into prior to the Merger Date between the Company and KCRC as further described above in the section headed “US CBL Allocation Agreement”;
- “US CBL Assumption Agreements”** means the agreements so entitled expected to be entered into prior to the Merger Date between the Company, KCRC and various other counterparties to KCRC’s CBLs as further described above in the section headed “US CBL Assumption Agreements”;
- “West Rail”** means the railway line connecting Tuen Mun and Nam Cheong; and
- “West Rail Agency Agreement”** means the agency agreement entered into on the Signing Date between the Company, KCRC and certain of KCRC’s subsidiaries, which documents the agency arrangements with respect to the development of property along the West Rail as further described above in the section headed “West Rail Agency Agreement”.

By Order of the Board
Leonard Bryan Turk
Company Secretary

Hong Kong, 9 August 2007

As at the date of this announcement:

The **Members of the Board** are: 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*, 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)**

The **Members of the Executive Directorate** are: 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.