

# Corporate Governance Report

## Corporate Governance Practices

Corporate governance is the collective responsibility of Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board continues to seek to identify and formalise best practices for adoption by the Company.

This Report describes the corporate governance best practices that the Company has adopted and highlights how the Company has applied the principles of the Code Provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 of the Listing Rules.

## Corporate Governance Code Compliance

During the year ended 31 December 2016, the Company has complied with the Code.

## Corporate Governance Initiatives in 2016

### Cancellation of Re-issue Mandate

At the Company's 2016 Annual General Meeting (the "2016 AGM"), the Board made a conscious decision not to seek for shareholders' approval for the re-issue mandate (i.e. the extended mandate of Directors to issue or deal with shares in the Company bought back by the Company pursuant to the repurchase mandate) after having taken into account feedback from the Company's shareholders and best practices advocated in the market, notwithstanding that it was permitted under the Listing Rules.

## Additional Assurance from Internal Audit on the Review of Continuing Connected Transactions

In accordance with Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation issued in January 2016, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions for the year ended 31 December 2016 and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors ("INEDs") in their annual review and confirmation of the continuing connected transactions in 2016.

## Handling of Inside Information

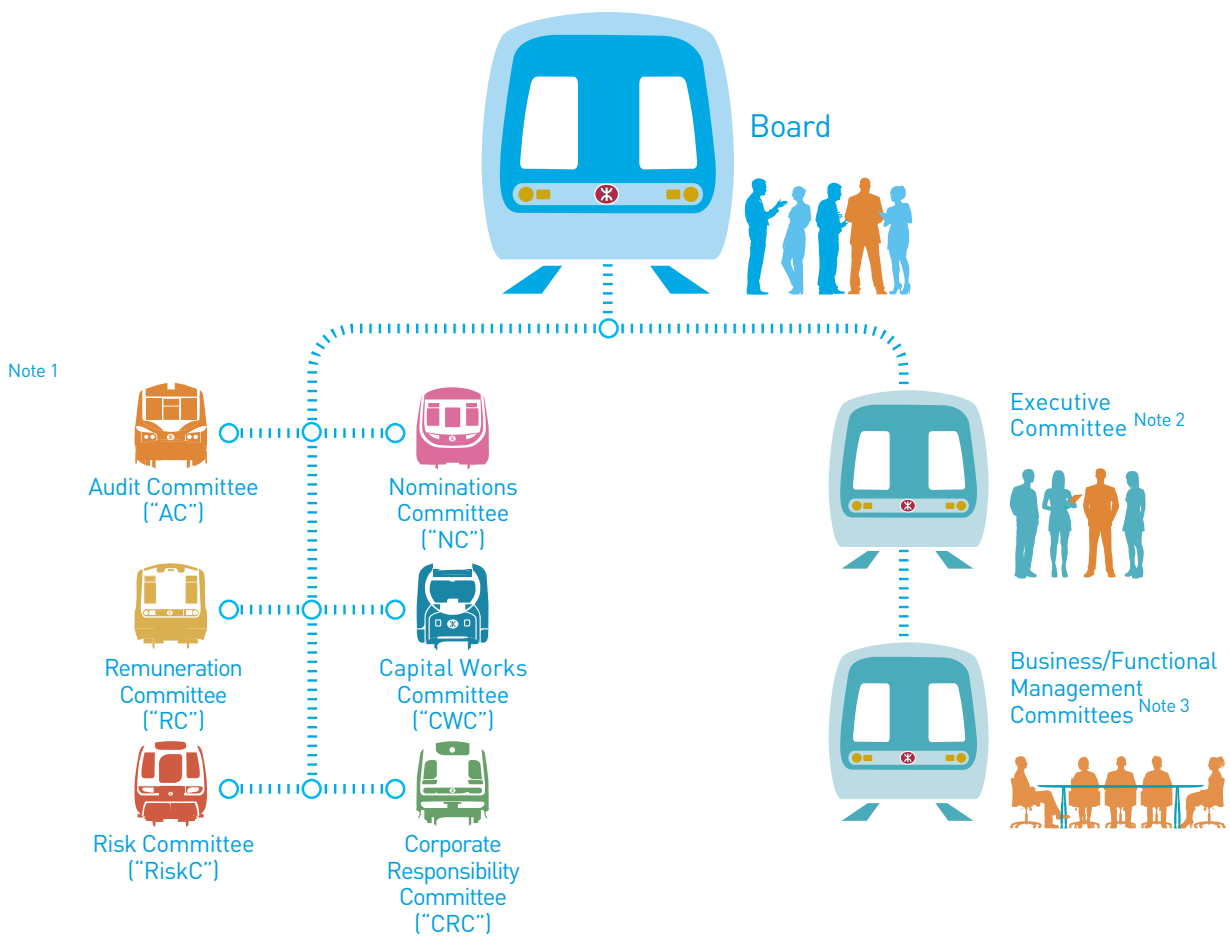
To further enhance the awareness and recognition of relevant staff of the importance of properly handling Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")), the Company has issued a new Corporation General Instruction (the "CGI") to all staff to strengthen and reinforce the directions issued by the Company previously, and has launched a new computer-based training programme ("CBT"), which is mandatory for all managers who are likely to be in possession of the Company's Inside Information because of their positions in the Company. Further details are set out on page 144 of this Annual Report.

## The Board of Directors

### Overall Management

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the "Protocol: Matters Reserved for the Board" (the "Protocol") adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, corporate governance, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, corporate governance functions, risk management and internal control systems, treasury policies and fare structures.

Below is a diagram of the governance structure of the Company:



**Notes:**

- 1 All Board Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense, to perform their responsibilities. The Terms of Reference of each Committee are available on the websites of both the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange.
- 2 The Executive Committee is delegated by the Board to handle day-to-day management of the Company's business pursuant to the Company's Articles of Association and the Protocol; and is chaired by the Chief Executive Officer ("CEO") (who is supported by the 11 other Members of the Executive Directorate).
- 3 Key Business/Functional Management Committees are listed out on pages 142 to 143 of this Report.

## Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2016

	Board Meetings			Board Committees Meetings						General Meetings Attendance			Training	
	Attendance			Attendance Memberships										
	RM	SM	PM	AC	NC	RC	CWC	RiskC	CRC	GM	AGM	IndP	BB/V	Others
<b>Number of Meetings</b>	8	6	3	4	1	6	5	4	2	1	1	-	-	-
<b>Members of the Board</b>														
<b>Non-executive Directors</b>														
Professor Frederick Ma Si-hang (Chairman) (since 1 January 2016) <sup>(Note 1)</sup>	8/8	6/6	3/3		1/1 M	6/6 M			2/2 C	1/1	1/1	N/A	√	√
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury) <sup>(Note 2)</sup>	7/8	1/6	2/3		0/1 M	3/6 M				0/1	0/1	N/A	√	√
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung) <sup>(Note 3)</sup>	8/8	1/6	3/3		1/1 M	6/6 M				0/1	0/1	N/A	√	√
Permanent Secretary for Development (Works) (Hon Chi-keung) <sup>(Note 4)</sup>	4/8	2/6	1/3				2/5 M	2/4 M		0/1	0/1	N/A	√	√
Commissioner for Transport (Ingrid Yeung Ho Poi-yan) <sup>(Note 5)</sup>	8/8	4/6	3/3	4/4 M				4/4 M		0/1	0/1	N/A	√	√
<b>Independent Non-executive Directors</b>														
Pamela Chan Wong Shui	8/8	6/6	3/3		1/1 M				2/2 M	1/1	1/1	N/A	√	√
Dr Dorothy Chan Yuen Tak-fai <sup>(Note 6)</sup>	7/8	4/6	2/3			6/6 C	4/5 M			0/1	1/1	N/A	√	√
Vincent Cheng Hoi-chuen <sup>(Note 7)</sup>	4/8	2/6	2/3			4/6 M			1/2 M	0/1	0/1	N/A	√	√
Anthony Chow Wing-kin (since 18 May 2016) <sup>(Note 8)</sup>	5/5	2/3	1/1			2/2 M	2/3 M					√	√	√
Dr Eddy Fong Ching	8/8	5/6	3/3	4/4 C	0/1 M					1/1	1/1	N/A	√	√
James Kwan Yuk-choi	7/8	4/6	3/3				4/5 M	4/4 M		1/1	1/1	N/A	√	√
Lau Ping-cheung, Kaizer <sup>(Note 9)</sup>	8/8	5/6	3/3				5/5 M		2/2 M	1/1	0/1	N/A	√	√
Lucia Li Li Ka-lai <sup>(Note 10)</sup>	8/8	5/6	3/3	4/4 M				4/4 M		1/1	1/1	N/A	√	√
Alasdair George Morrison <sup>(Note 11)</sup>	8/8	6/6	3/3	4/4 M				4/4 C		1/1	1/1	N/A	√	√
Ng Leung-sing	5/8	4/6	1/3		1/1 M			3/4 M		1/1	0/1	N/A	√	√
Abraham Shek Lai-him <sup>(Note 12)</sup>	7/8	6/6	1/3		1/1 C		4/5 M			1/1	1/1	N/A	√	√
Benjamin Tang Kwok-bun <sup>(Note 13)</sup>	8/8	2/6	3/3			5/6 M		1/4 M		1/1	1/1	N/A	√	√
Dr Allan Wong Chi-yun <sup>(Note 14)</sup>	6/8	5/6	3/3	3/4 M			5/5 C			1/1	1/1	N/A	√	√
Edward Ho Sing-tin (up to 18 May 2016) <sup>(Note 15)</sup>	3/3	3/3	2/2			3/4	2/2			1/1	0/1	N/A	√	√
<b>Executive Director</b>														
Lincoln Leong Kwok-kuen (CEO) <sup>(Note 16)</sup>	8/8	6/6	2/3						1/2 M	1/1	1/1	N/A	√	√
<b>Members of the Executive Directorate &amp; the Executive Committee</b>														
Lincoln Leong Kwok-kuen <sup>(Note 16)</sup>	8/8	6/6	2/3						1/2 M	1/1	1/1	N/A	√	√
Dr Jacob Kam Chak-pui										1/1	1/1	N/A	√	√
Margaret Cheng Wai-ching (Since 1 June 2016) <sup>(Note 17)</sup>									0/1 M			√	√	√
Morris Cheung Siu-wa										1/1	1/1	N/A	√	√
Dr Peter Ronald Ewen (Since 22 February 2016) <sup>(Note 18)</sup>											1/1	√	√	√
Herbert Hui Leung-wah (Since 2 July 2016) <sup>(Note 19)</sup>												√	√	√
Adi Lau Tin-shing (Since 1 May 2016) <sup>(Note 20)</sup>											1/1	√	√	√
Gillian Elizabeth Meller										1/1	1/1	N/A	√	√
Linda So Ka-pik <sup>(Note 21)</sup>									2/2 M	1/1	1/1	N/A	√	√
David Tang Chi-fai										1/1	1/1	N/A	√	√
Dr Philco Wong Nai-keung										1/1	1/1	N/A	√	√
Jeny Yeung Mei-chun										1/1	1/1	N/A	√	√
Stephen Law Cheuk-kin (Up to 1 July 2016) <sup>(Note 22)</sup>										1/1	1/1	N/A	√	√

# Corporate Governance Report

## Remarks:

### Board Meetings

RM – Regular Meeting      SM – Special Meeting

PM – Private Meeting

### Board Committees Membership

C – Chairman of the committee      M – Member of the committee

### General Meetings

GM – General Meeting held on 1 February 2016

AGM – Annual General Meeting held on 18 May 2016

### Training

IndP – Induction Programme – For newly appointed Members of the Board and the Executive Directorate in 2016

BB/V – Board Briefings/Visits – Briefings on the Company's Businesses/Site Visits

Others – Regulatory/legal updates and other materials pertinent to directors' duties and responsibilities

## Notes:

- 1 Professor Frederick Ma Si-hang was appointed as the Non-executive Chairman of the Company, a member and the chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee, all with effect from 1 January 2016.
- 2 The alternate directors of Professor Chan Ka-keung, Ceajer, acting on his behalf, attended one Regular Meeting, three Special Meetings, one Private Meeting, three Remuneration Committee meetings and the 2016 AGM. The alternate director of Professor Chan did not attend the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest. Professor Chan (and his alternate directors) did not attend the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 3 The alternate directors of Professor Anthony Cheung Bing-leung, acting on his behalf, attended three Special Meetings. The alternate director of Professor Cheung did not attend the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest. Professor Cheung (and his alternate directors) did not attend the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 4 The alternate director of Mr Hon Chi-keung, acting on his behalf, attended two Regular Meetings, two Special Meetings, one Private Meeting, two Risk Committee meetings and two Capital Works Committee meetings. The alternate director of Mr Hon did not attend the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism to avoid any actual or perceived conflict of interest. Mr Hon (and his alternate directors) did not attend the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 5 Mrs Ingrid Yeung Ho Poi-yan attended one Regular Meeting and one Special Meeting by teleconference. Mrs Yeung did not attend (i) the first session of the Special Meeting held on 20 April 2016 in relation to the early review of the Fare Adjustment Mechanism; and (ii) the Special Meetings held on 25 January and 26 May 2016, and the General Meeting held on 1 February 2016 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 6 Dr Dorothy Chan Yuen Tak-fai attended one Regular Meeting and one Special Meeting by teleconference.
- 7 Mr Vincent Cheng Hoi-chuen attended one Remuneration Committee meeting by teleconference.
- 8 Mr Anthony Chow Wing-kin was elected as a new Board Member and became an INED and a member of each of the Capital Works Committee and the Remuneration Committee, all with effect from the conclusion of the 2016 AGM held on 18 May 2016. His attendance rate was based on the number of meetings held since his appointment.
- 9 Mr Lau Ping-cheung, Kaizer attended one Regular Meeting by teleconference.
- 10 Ms Lucia Li Li Ka-lai attended one Regular Meeting by teleconference.
- 11 Mr Alasdair George Morrison attended two Regular Meetings, one Special Meeting, one Private Meeting and one Audit Committee meeting by teleconference.
- 12 Mr Abraham Shek Lai-him attended two Regular Meetings, one Special Meeting and one Capital Works Committee meeting by teleconference.
- 13 Mr Benjamin Tang Kwok-bun was appointed as a member of the Remuneration Committee with effect from 1 January 2016.
- 14 Dr Allan Wong Chi-yun attended one Special Meeting by teleconference. Dr Wong was appointed as the Chairman of the Capital Works Committee with effect from the conclusion of the 2016 AGM held on 18 May 2016.
- 15 Mr Edward Ho Sing-tin retired as an INED of the Company; and ceased to be a member and the chairman of the Capital Works Committee and a member of the Remuneration Committee, all with effect from the conclusion of the 2016 AGM held on 18 May 2016. His attendance rate was based on the number of meetings held during his tenure.
- 16 Mr Lincoln Leong Kwok-kuen attended one Special Meeting by teleconference. Mr Leong was not invited to attend one Private Meeting which was held by the Chairman with non-executive Directors only.
- 17 Ms Margaret Cheng Wai-ching was appointed as the Company's Human Resources Director, a member of the Executive Directorate of the Company and a member of the Corporate Responsibility Committee, all with effect from 1 June 2016.
- 18 Dr Peter Ronald Ewen was appointed as the Company's Engineering Director and a member of the Executive Directorate of the Company with effect from 22 February 2016.
- 19 Mr Herbert Hui Leung-wah was appointed as the Company's Finance Director and a member of the Executive Directorate of the Company with effect from 2 July 2016.
- 20 Mr Adi Lau Tin-shing was appointed as the Company's Operations Director and a member of the Executive Directorate of the Company with effect from 1 May 2016.
- 21 Ms Linda So Ka-pik attended one Corporate Responsibility Committee meeting by teleconference. Ms So was appointed as a member of the Corporate Responsibility Committee with effect from 1 January 2016.
- 22 Mr Stephen Law Cheuk-kin ceased to be the Company's Finance Director and a member of the Executive Directorate of the Company upon expiry of his service contract with the Company with effect from 2 July 2016.

## Composition of The Board

The Company currently has 18 Non-executive Directors (“NEDs”) of which 13 are INEDs. The CEO is the only Executive Director on the Board.

A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 160 to 175 of this Annual Report.

The size of the Board has been reviewed by the Nominations Committee and is considered appropriate to address incremental demands, such as:

- The continued expansion of the Company’s Mainland of China and international businesses;
- The need for more INEDs to maintain a good balance in the composition of the Board and to broaden the spectrum of available skills; and
- The increased responsibilities of Board Members as a result of the establishment of more Board Committees.

Government, through The Financial Secretary Incorporated, holds approximately 75.09% of the issued shares of the Company as at 31 December 2016, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of his right under Section 8 of the MTR Ordinance, has appointed three persons as “additional directors” of the Company (the “Additional Directors”). They are:

- The office of the Secretary for Transport and Housing (“S for T&H”, currently held by Professor Anthony Cheung Bing-leung);
- The office of the Permanent Secretary for Development (Works) (“PS for D (Works)”, currently held by Mr Hon Chi-keung); and
- The office of the Commissioner for Transport (“C for T”, currently held by Mrs Ingrid Yeung Ho Poi-yan).

The Additional Directors are all NEDs and are treated for all purposes in the same way as other Directors and are, therefore, subject to the usual common law duties of directors, including the requirement to act in the best interests of the Company.

Another NED, Professor Chan Ka-keung, Ceajer, is Secretary for Financial Services & the Treasury (“S for FS&T”).

The number of INEDs currently comprises more than two-thirds of the Company’s Board and well exceeds the Listing Rules requirement to have independent non-executive directors representing at least one-third of a board.

Coming from diverse business and professional backgrounds, Members of the Board actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. In addition, the INEDs also contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subject to objective and dispassionate consideration by the Board.

### Chairman and CEO

The posts of the Chairman and the CEO are distinct and separate.

The non-executive Chairman is responsible for:

- Chairing and managing the operations of the Board;
- Monitoring the performance of the CEO and other Members of the Executive Directorate;
- Making sure that adequate information about the Company’s business is provided to the Board on a timely basis;
- Providing leadership for the Board and promoting a culture of openness;
- Ensuring views on all issues are exchanged by all Members of the Board in a timely manner;
- Encouraging Members of the Board to make a full and effective contribution to the discussion at Board Meetings; and
- Establishing good corporate governance practices and procedures.

The CEO is:

- Head of the Executive Directorate;
- Chairman of the Executive Committee;
- Responsible to the Board for managing the business of the Company; and
- Responsible for performing a bridging function between the Board and the Executive Directorate.

## Board Committees

The Board Committee memberships and attendance record of each Member of the Board in 2016 is set out on pages 131 to 132 of this Annual Report.

### Audit Committee

Details of the Audit Committee, including its duties and work performed during the year are set out in the Audit Committee Report (pages 149 to 151) of this Annual Report.

### Risk Committee

Details of the Risk Committee, including its duties and work performed during the year are set out in the Risk Committee Report (pages 152 to 153) of this Annual Report.

### Capital Works Committee

Details of the Capital Works Committee, including its duties and work performed during the year are set out in the Capital Works Committee Report (page 154) of this Annual Report.

### Remuneration Committee

Details of the Remuneration Committee, including its duties and work performed during the year are set out in the Remuneration Report (pages 155 to 159) of this Annual Report.

### Nominations Committee

Principal responsibilities:

- Nominating and recommending to the Board candidates for filling vacancies on the Board, and the positions of CEO, Finance Director and Chief Operating Officer (provided that the Chief Operating Officer position exists);
- Considering candidates for the position of Finance Director and Chief Operating Officer, recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates);

- Giving consideration to the Board Diversity Policy (the "BD Policy") when identifying suitably qualified candidates to become Members of the Board, although Board appointments will continue to be made on a merit basis;
- Reviewing the size, structure, and composition of the Board on an annual basis;
- Reviewing the achievement of objectives pursuant to the BD Policy; and
- Reviewing a list of desirable skills/experience/perspectives for the Board (the "List").

During the year, the Committee conducted reviews and made corresponding recommendations to the Board in respect of the following matters:

- Achievement of objectives pursuant to the BD Policy and effectiveness of the BD Policy;
- The size, structure, and composition of the Board and the List;
- Appointment of a new Board Member by shareholders at the 2016 AGM;
- Re-election/election of Members of the Board retiring at the 2016 AGM;
- Annual assessment of independence of each INED of the Company; and
- Nomination of Mr Herbert Hui Leung-wah as Finance Director.

### Corporate Responsibility Committee

Principal responsibilities:

- Overseeing the Company's stakeholder engagement and external communication strategies;
- Recommending the Corporate Responsibility Policy to the Board for approval;
- Monitoring and overseeing the implementation of the Company's Corporate Responsibility Policy and related initiatives;
- Identifying emerging corporate responsibility issues arising from external trends;

- Reviewing the Company's annual Sustainability Report and recommending approval by the Board;
- Reviewing the Company's environmental and social performance; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Please also refer to the "Corporate Responsibility" section (pages 114 to 119) of this Annual Report.

Work performed during the year:

- Reviewed and endorsed the updated Corporate Responsibility Policy;
- Reviewed (i) the overall approach and initiatives in place to support the aging population; (ii) initiatives that mitigate the Company's impact on the environment; and (iii) progress made on the Company's youth and community initiatives;
- Reviewed and recommended the 2015 Sustainability Report to the Board for its approval;
- Reviewed the Company's overall communications strategy; and
- Reviewed the publicity campaign on the Company's "Art in Station" programme.

## Company Secretary

Ms Gillian Elizabeth Meller, being Legal and European Business Director ("L&EBD") and a Member of the Executive Directorate, reports to the CEO. Her role as Company Secretary includes:

- Providing access to advice and services for Members of the Board;
- Ensuring the correct Board procedures are followed;
- Advising the Board on all corporate governance matters;
- Arranging for Members of the Board/Alternate Directors, upon their appointment, to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules;

- Recommending Members of the Board, their Alternate Directors and Members of the Executive Directorate to attend relevant seminars and courses; and
- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2016, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

## Appointment, Re-election and Removal of Members of the Board

A person may be appointed as a Member of the Board at any time either by:

- the shareholders in general meeting in accordance with the "Appointment Procedure for Members of the Board of the Company", which is available on the website of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)); or
- the Board upon the recommendation of the Nominations Committee of the Company; or
- the Chief Executive of the HKSAR in the case of the Additional Directors.

Members of the Board who are appointed by the Board must retire at the first annual general meeting after their appointment and are eligible for election at that annual general meeting.

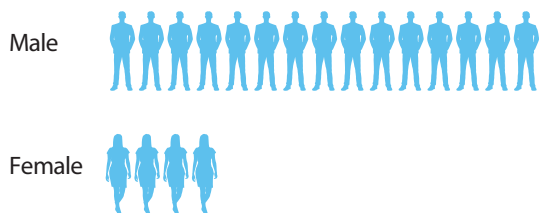
Excluding the Additional Directors, other Members of the Board (including Professor Chan Ka-keung, Ceajer, S for FS&T) are required to retire by rotation. At each annual general meeting of the Company, Board Members who were last elected or re-elected at the annual general meeting which was held in the third calendar year prior to the annual general meeting in question, are those who will retire by rotation.

The Additional Directors may not be removed from office except by the Chief Executive of the HKSAR and are not subject to any requirement to retire by rotation.

The Company has a service contract with each of the NEDs, with the exception of the Additional Directors, specifying the terms of his/her continuous appointment as a NED and as the chairman or a member of the relevant Board Committee(s), for a period not exceeding three years.

## Board Diversity

### Gender



### Number of Years as Board Members (Years)



### Designation



### Outside Directorships (Number of companies)



### Age Group



The Company has posted its BD Policy on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)). The BD Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Board Members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. While the Company is conscious of maintaining an appropriate proportion of female Members on the Board, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

As mentioned above, the Nominations Committee reviews the BD Policy annually, and the Board also reviews the BD Policy on a regular basis to ensure its continued effectiveness.

The BD Policy was taken into account by the Nominations Committee in considering the nomination of Mr Anthony Chow Wing-kin as a new INED for appointment in May 2016. The Committee formed the view that the appointment of Mr Chow, who has been a practising solicitor in Hong Kong for over 30 years, would add to the spectrum of skills, experience and diversity of perspectives in the Board, thereby enhancing the diversity and effectiveness of the Board.

## Statutory Confirmations

For the year ended 31 December 2016, the Company has received confirmation from each INED about his/her independence under the Listing Rules. As part of its duties set out in its Terms of Reference, the Nominations Committee has reviewed these confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

In respect of Mr Abraham Shek Lai-him, who has been a member of the Board since December 2007, the Nominations Committee (with Mr Shek abstaining from the discussion due to the fact that he is an interested party) carefully assessed his independence against the relevant independence assessment requirements in the Listing Rules, and formed the view that Mr Shek, notwithstanding he has been an INED of the Company for over nine years, remains independent. Details of the factors considered by the Committee are set out in the 2017 annual general meeting Circular which was sent to Shareholders together with this Annual Report and is available on the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange.



Each Member of the Board ensures that he/she can give sufficient time and attention to the affairs of the Company and contribute to the development of the Company's strategy and policies through independent, constructive and informed comments.

Regarding disclosure of the number and nature of offices held by Members of the Board in public companies or organisations and other significant commitments, as well as their identity and the time involved (the "Commitments"), to the Company, all Members of the Board have disclosed their Commitments to the Company in a timely manner.

In light of the above, the Chairman held a Private Meeting (without the presence of the CEO and other Members of the Executive Directorate) in December 2016 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them. The review also assessed the performance of the Board as a whole and concluded that all Board Members have made a positive contribution to the Board and the Company.

The Company provides each Board Member with a "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration") for review before each regular Board meeting to facilitate them in declaring any possible conflict of interest at the meetings. The Declaration of each Alternate Director is sent to him/her for update on a quarterly basis. In addition, each Member of the Board and each Alternate Director is required to confirm his/her other directorships, major appointments and interests to the Company twice a year.

Save as disclosed in this Annual Report, none of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other.

## Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate have complied throughout the year with the Model Code. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of

Inside Information, have also been requested to comply with the provisions of the Model Code.

## Directors' Insurance

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' ("D&O") Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2016 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

## Corporate Governance Functions Review

In March 2016, the Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions, and considered that the Company's:

- policies and practices on corporate governance embracing the Company and its subsidiaries and associates under the internal control system and enterprise risk management mechanism;
- training and continuous professional development of Members of the Board and senior management;
- policies and practices on compliance with legal and regulatory requirements; and
- Code of Conduct and Directors' Manual

are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

The Terms of Reference on Corporate Governance Functions are available on the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange.

## Board Proceedings

The Board meets in person regularly, and all Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures.

The draft agenda for regular Board meetings is prepared by the Company Secretary (the L&EBD) and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Company Secretary not less than one week before the relevant Board meeting if they wish to include a matter in the agenda of the meeting. The agenda together with Board Papers are usually sent at least three days before the intended date of the Board meeting.

The Board meeting dates for the following year are usually fixed by the Company Secretary with the agreement of the Chairman, before communicating with other Members of the Board in the third quarter of each year.

At regular Board meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business.

The CEO Executive Summary, provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company. In 2016, the Summary was enhanced to provide Members of the Board with a look ahead to key issues or events in the following three to six months. This Summary, together with the discussions at Board meetings, ensures that Members of the Board have a general understanding of the Company's business and provides up-to-date information to enable them to make informed decisions for the benefit of the Company.

All Members of the Board have access to the advice and services of the Company Secretary, who is responsible for ensuring that the correct Board procedures are followed and advising the Board on all corporate governance matters. Members of the Board also have full access to Members of the Executive Directorate as and when they consider necessary.

## Material Interests and Voting

All Members of the Board and the Executive Directorate are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the Company's shareholders as a whole. Amongst others, all of them are required to declare the nature and extent of their interests, if any, in any contract, transaction, arrangement or other proposal to be considered by the Board at Board meetings.

Unless specifically permitted by the Articles of Association, a Member of the Board cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he/she has an interest and which he/she knows is material. For this purpose, the interests of a person who is connected with a Member of the Board (including any of his/her associates) are treated as the interests of the Member of the Board himself/herself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Member of the Board may not be included in the quorum for such part of a meeting that relates to a resolution he or she is not allowed to vote on but he or she shall be included in the quorum for all other parts of that meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Board Member's other interests or appointments.

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director is not included in the quorum for that part of the meeting which relates to the contract, transaction, arrangement or other proposal being considered by the Board and in relation to which the conflict exists and is not allowed to vote on the related resolution.

There are a number of contractual arrangements that have been entered into between the Company and Government (and its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 187 to 206) of this Annual Report explain how, in accordance with the Listing Rules, these transactions are treated.

Matters to be decided at Board meetings are decided by a majority of votes from Members of the Board allowed to vote, although the usual practice is that decisions reflect the consensus of the Board.

## Board and Board Committee Meetings

The Board held 17 meetings in 2016 (including eight Regular Meetings, six Special Meetings and three Private Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

In November 2016, the Board held its first overseas meeting in Melbourne and also took the opportunity to understand the Company's investments and future investment opportunities in Melbourne and Sydney.

## Regular Meetings

At each of these Regular Meetings, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's different businesses and financial performance. In addition, other key matters discussed at Board meetings held in 2016 included:

- Corporate Strategy
  - Rail Gen 2.0;
- Corporate Governance matters, including
  - Receipt of Directors' Manual updates on an annual basis;
  - Review of the structure, size and composition of the Board on an annual basis;
  - Review of corporate governance functions on an annual basis;
  - Review of risk management and internal control systems effectiveness on an annual basis;
  - Receipt of the proceedings of various Board Committee meetings and MTR Academy Council meetings;
  - Approval of Sustainability Report 2015;
  - Receipt of Corporate Safety Governance Annual Report 2015;
  - Review of Enterprise Risk Management Reports;
  - Receipt of presentation on Engineering Division functions; and
  - Approval of changes in the composition of Board Committees;
- 2016 AGM
  - Recommendation for the election/re-election of retiring Members of the Board; and
  - Recommendation for the nomination of a new Board Member;
- Projects
  - Receipt of railway projects' updates; and
  - Approval of contract awards relating to railway projects;
- Operations
  - Receipt of annual train service performance and customer feedback 2015;
  - Receipt of updates on signalling replacement projects; and
  - Approval of the purchase of additional new trains for the East West Line of the Shatin to Central Link project;
- Receipt of updates on Mainland China and International Businesses;
- Approval of Property development tender awards in Hong Kong;
- Approval of establishment of the MTR Academy;
- Human Resources
  - 2016 Annual Pay Review; and
  - Review of share incentive scheme and other personnel matters;
- Commercial and Marketing
  - Approval of MTR fare revision and proposed fares for the Kwun Tong Line Extension and South Island Line (East); and
  - Approval of tender for Duty Free Shops at cross-border stations and on-board trains;
- Financial
  - Approval of 2015 Annual Report and Accounts;
  - Approval of 2016 Interim Report and Accounts;
  - Approval of Ngong Ping 360 Limited 2015 annual results;
  - Receipt of Octopus Business Performance Review;
  - Approval of debt issuance programme – Issuance of Green Bond; and
  - Approval of 2017 Budget and Longer Term Forecast.

The minutes of Board meetings are prepared by the Company Secretary or her delegate with details of the matters considered by the Board and decisions reached, including any concerns raised by Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comments within a reasonable time after the meeting. The approval procedure is that the Board formally adopts the draft minutes at the subsequent meeting. If Members of the Board have any comments on the draft minutes, they will discuss it at that meeting and any agreed changes will be reflected in the formal minutes of the relevant meeting. Minutes of Board meetings are kept by the Company Secretary and are open for inspection by all Members of the Board at the Company's registered office.

### Special Meetings

A number of matters were covered in the Special Meetings, including the Express Rail Link project, the MTR Academy, the proposed early review of the Fare Adjustment Mechanism, proposed investment projects in the Mainland of China and the Tender award of Ho Man Tin Station Package One Property Development.

### Private Meetings

At the Private Meetings, the Board discussed the performance of Members of the Executive Directorate and changes to the organizational structure of the Executive Directorate.

The Chairman held a Private Meeting (without the presence of the CEO and other Members of Executive Directorate) in December 2016 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them. The review also assessed the performance of the Board as a whole and concluded that all Board Members have made positive contribution to the Board and the Company.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 131 to 132 of this Annual Report.

### Board Committee Meeting

A Board Committee meeting, with a quorum of two, was held on 11 March 2016 to consider the final dividend for the year ended 31 December 2015 and the 2015 Annual Report and Accounts and recommend the same for shareholders' approval at the 2016 AGM, and approve the Preliminary Announcement of Results.

## Induction Programme and Other Training

### Induction Programme

On appointment, each new Member of the Board (including Government nominated Directors), Alternate Director and Member of the Executive Directorate is given a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules.

A tailor-made training programme covering the roles of a director from the strategic, planning and management perspective, as well as the essence of corporate governance and the trends in these areas, was therefore arranged for Mr Anthony Chow Wing-kin (an INED), three Alternate Directors (Mr Andrew Lai Chi-wah, Ms Macella Lee Sui-chun, and Mr Vincent Mak Shing-cheung), Ms Margaret Cheng Wai-ching (Human Resources Director), Dr Peter Ronald Ewen (Engineering Director), Mr Herbert Hui Leung-wah (Finance Director) and Mr Adi Lau Tin-shing (Operations Director), all of whom were appointed in 2016.

A Familiarization Programme to understand key areas of the Company's business operations was also provided.

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' duties, and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas. The latest update to the Directors' Manual was approved on 17 January 2017.

### Training and Continuous Professional Development

#### *Members of the Board and the Executive Directorate*

To assist Members of the Board and the Executive Directorate in continuing their professional development, the Company Secretary recommends them to attend relevant seminars and courses. The costs for such training are borne by the Company.



Board Visit in Australia

### Board Visits

In addition to the Board visits arranged in the first half of 2016 which were disclosed in the Company's Interim Report 2016 on page 35, two more site visits were arranged in the second half of the year.

In July 2016, certain Members of the Board and the Executive Directorate visited PopCorn and LOHAS Park at Tseung Kwan O, to gain a first-hand understanding of the shopping mall operation at Popcorn and the latest property development progress at LOHAS Park. They also visited the Tseung Kwan O depot to understand more about the operations of the depot on site.

In November 2016, Members of the Board and the Executive Directorate visited Melbourne and Sydney, Australia and the Board held its first overseas meeting in Melbourne. The visit offered an invaluable opportunity for Board Members to see how the expertise and experience contributed by the Company over the years is helping both Melbourne and Sydney to develop their metro networks to serve their local communities and foster growth and development. The opportunity of talking to partners and stakeholders of the Company in these places enabled Members of the Board to learn more about the Company's business and to better understand both the challenges and future opportunities for the Company's growth in Australia.

### Training

The Company's external legal advisor briefed Members of the Board and the Executive Directorate on topics covered in the annual update to the Directors' Manual at the 12 January 2016 Board Meeting.

A few Members of the Board, an Alternate Director and Members of the Executive Directorate attended the "Directors' Master Class" organised by the Company's external legal advisor in October 2016, in which crisis management – dealing with a major cyber-attack, a refresher on handling Inside Information and directors' duties were covered.

In addition, materials on the subject of corporate governance are also provided to Members of the Board, Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of the latest developments on this front.

Each Member of the Board and the Executive Directorate has also provided to the Company a record of the training he/she has received during the year and their training records for the year are set out on pages 131 to 132 of this Annual Report.

### Senior Executives

A comprehensive and tailored training programme is developed for the Senior Executives of the Company. This programme consists of a series of workshops, seminars and benchmarking visits which are organised on an on-going basis.

This training programme serves to further enhance the business acumen, leadership and management skills of the Senior Executives.

To support the enhancement of the business acumen of the Senior Executives, professors from business schools of renowned universities are engaged to share cutting-edge research and insights on contemporary management and business topics. For learning from other leading businesses in Hong Kong, the programme has established a “Leaders Forum”, inviting senior executives from leading companies in different industries to share their success stories, management practices, personal wisdom and insights in the Company’s in-house seminars. Senior Executives have actively participated in various training activities.

## Accountability

Members of the Board are responsible for the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of the Group’s consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated accounts for the year ended 31 December 2016, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the consolidated accounts for the year ended 31 December 2016, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the external auditor of the Company (“External Auditor”) are set out on pages 146 to 147 of this Annual Report.

In support of the above, the consolidated accounts presented to the Board have been reviewed by Members of the Executive Directorate. For both the annual and interim reports and consolidated accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as any changes in accounting policies adopted by the Group, have been discussed and approved at the Audit Committee before adoption by the Group.

## Risk Management and Internal Control Systems

The Board is responsible for the internal control system and the risk management system (the “ERM” system) of the Company and its subsidiaries, setting appropriate policies

and reviewing the effectiveness of the internal control system and the ERM system. The internal control system and the ERM system, with processes put in place by the Board, management and other personnel, are designed to manage (as opposed to eliminate) the risk of failure and provide reasonable assurance, and not absolute assurance, against material misstatement or loss, regarding the achievement of objectives in the following areas:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness of risk management

## Systems Overview

The Executive Committee is responsible for:

- Implementing the Board’s policies on risk management and internal controls;
- Identification and evaluation of the risks faced by the Company for consideration by the Board;
- Designing, operating and monitoring a suitable internal control system and an ERM system and implementing the policies adopted by the Board; and
- Providing assurance to the Board that it has done so, together with a confirmation that these systems are effective and adequate.

In addition, all employees have responsibility for internal controls and risk management within their areas of accountability.

## Business/Functional Management Committees

A number of committees have been established to assist the Executive Committee in the management and control of the Company’s various core businesses and functions. Key committees include:

- Operations Executive Management Committee
- Property Executive Management Committee
- Project Control Group
- Investment Committee
- European Business Management Committee
- Australian and International Consultancy Business Management Committee

- Mainland China Business Management Committee
- Information Technology Executive Management Committee
- Financial Planning Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Executive Tender Panel/Tender Board
- Corporate Responsibility Steering Committee
- Corporate Information Security Management Committee
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)

## Internal Audit

The IAD provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the IAD include:

- Carrying out analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company;
- Recommending improvements to existing management controls and resources utilisation; and
- Performing special reviews, investigations, and consulting and advisory services related to corporate governance and controls as commissioned by management or the Audit Committee of the Company.

The Head of Internal Audit reports directly to the CEO and the Audit Committee. The IAD has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes. On a regular basis, it conducts audits on financial, operational and compliance controls, and the risk management functions of the Company and its subsidiaries. Relevant members of the management team are responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The IAD produces an annual internal audit plan for the Audit Committee's approval. The audits are selected based on a risk assessment to ensure that business activities with higher risk are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee his opinion on the adequacy and effectiveness of the Company's internal control system.

## ERM system

The ERM system is an essential and integral part of the Company's corporate governance framework and helps to sustain business success and create value for stakeholders. It involves a corporate-wide systematic risk management process which aims to assist the Executive Committee and individual business unit managers to manage the key risks facing the Company and supports the Board in discharging its corporate governance functions.

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed, and the process used to review the effectiveness of the ERM system are set out in the "Risk Management" section (pages 125 to 128) of this Annual Report.

## Board Oversight

The Board, assisted by the Risk Committee and the Audit Committee, oversees the Company's ERM system and internal control system respectively on an ongoing basis, and reviews the effectiveness of the systems at least annually. The duties of and work performed in 2016 by the Risk Committee and Audit Committee respectively are set out in the "Risk Committee Report" (pages 152 to 153) and "Audit Committee Report" (pages 149 to 151) of this Annual Report.

## Control Activities and Processes

### *Compliance with Statutes and Regulations*

To ensure the efficient and effective operation of business units and functions, and the safety of the operating railway and construction works in railway projects, CGIs, divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to achieve, monitor and enforce internal controls and evaluate their effectiveness.

CGIs and various departmental procedures and manuals are established for preventing or detecting unauthorised expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records and timely preparation of reliable financial information.

All Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are responsible for ensuring compliance with the statutes and regulations applicable to their own functional units. With necessary legal support, they are required to:

- Identify any new or updated statutes;
- Assess their impact on the Company's operations;

- Review at least once a year that the relevant statutes/regulations have been complied with; and
- Report any potential and actual significant non-compliances to the respective Divisional Directors and the Executive Committee.

Issues relating to compliance with statutes and regulations, including potential and actual non-compliances, and the status of rectification and actions taken to prevent recurrence are reported annually to the Executive Committee and Audit Committee.

Divisional Directors, Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are required to conduct annual assessments and certification on the effectiveness of internal controls and risk management systems within their areas of responsibility.

### **Whistle-blowing Policy**

A whistle-blowing policy has been put in place to deal with concerns related to fraudulent or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal or reputational impacts on the Company. The policy applies to all staff, parties who deal with the Company as well as the general public. Every half year, a summary of all whistle-blowing cases handled by the Whistle Blowing Panel, plus staff complaints handled by the Human Resources Management Department and management initiated investigations are reported to the Executive and the Audit Committee.

### **Inside Information Policy**

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for handling and dissemination of Inside Information. The system covers the following:

- A new CGI issued in 2016 in place of the previous guidelines to reinforce:
  - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;
  - (ii) the responsibilities of officers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
  - (iii) the process of disclosure of Inside Information;

- Training to Members of the Board and the Executive Directorate, Executive Managers, Department Heads and managers who are classified as Model Code Managers as they are likely to be in possession of Inside Information because of their positions in the Company. On-going training sessions on the latest developments/requirements of the SFO are arranged as appropriate;
- Regular reminders to the Company's officers on the continuing obligations of the Company under the SFO with a copy of the new CGI and the web link of the CBT; and
- The Company's Code of Conduct, which makes specific reference to the SFO.

To support the effective implementation of the system mentioned above, in 2016, the Company launched a CBT for all Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers. The CBT will be re-run periodically to provide training for new Model Code Managers as well to refresh the training for the other in-scope audience.

The Board considers that the Company's existing system and measures are effective and appropriate compliance mechanisms to safeguard the Company and its officers in discharging their obligations in respect of the handling and disclosure of Inside Information.

### **Evaluation of the Effectiveness of the Risk Management System**

The Company has surpassed the relevant best practices in the Code by completing the effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's associates operating in Mainland China and overseas. For the year ended 31 December 2016, the Risk Committee, with delegated authority from the Board, evaluated the effectiveness of the ERM system of the Company and concluded that it was effective. The details are set out in the "Process of System Effectiveness Review" of the Risk Management section (page 128) of this Annual Report.

### **Evaluation of the Effectiveness of the Internal Control System**

For the year ended 31 December 2016, the Audit Committee, with delegated authority from the Board, evaluated the effectiveness of internal control system of the Company and its subsidiaries based on the following:



- Regular interviews with Members of the Executive Directorate in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- Review of significant issues arising from internal audit reports and the external audit reports;
- Private sessions with internal and external auditors;
- Review of annual assessment and certification of internal controls from Members of the Executive Directorate, management of overseas subsidiaries and Department Heads in their areas of responsibility;
- Review of papers submitted/prepared by the Executive Committee and the IAD covering periodic Financial Reports and Accounts; preview of Annual Accounting and Financial Reporting issues; Annual Internal Audit Plan; IAD's Half-yearly Reports; Whistle-blowing Reports; Report on the Company's Risk Management and Internal Control System; Report on Evaluation of Effectiveness of IAD; and Reporting of Outstanding Litigation and Compliance Issues; and
- The results from internal audits performed during the year on the effectiveness of the internal control system of the Company and its subsidiaries.

The Audit Committee concluded that the internal control system was effective.

### **Evaluation of the Adequacy of Resources of the Company's Accounting, Financial Reporting and Internal Audit Functions**

For the year ended 31 December 2016, the annual assessment performed by Finance Division and IAD concluded that there were adequate resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee the Group's financial reporting and other accounting-related matters. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and Ordinances including Hong Kong Financial Reporting Standards, the Listing Rules

and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance Director who will conduct a formal annual review and report the review results to the Audit Committee. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate.

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance and consulting services designed to add value and improve the Company's operations. A process to capture updated standards and best practices relating to internal audit is in place. Proper recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. The Head of Internal Audit conducts a formal annual review on the adequacy of staff resources, qualifications and experience of the internal audit function and reports the review results to the Audit Committee. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget were adequate.

### **Board's Annual Review**

The Board has, through the Risk Committee and the Audit Committee, overseen the Company's risk management and internal control systems on an ongoing basis. The Board has conducted its annual review of the Company's and its subsidiaries' risk management and internal control systems for the year ended 31 December 2016, and considers that such systems are effective and adequate. There were no significant control failings, weaknesses or significant areas of concern identified during the year.

The Board has conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2016, and considers the above resource components to be adequate.

## Crisis Management

To uphold the reputation of being one of the world's leading railway operators and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as Government departments and shareholders, the Company has since 1995 an established mechanism to activate the formation of the Crisis Management Team in the event of a crisis. The Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Plan which, among other things, sets out the duties of respective members. The Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and to disseminate crisis related information. The Crisis Management Team conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. An exercise for the Crisis Management Team was conducted in August 2016. Two exercises for the shadow team of the Crisis Management Team were conducted in December 2016.

## Governance of Subsidiaries and Associates

The Company has a number of subsidiaries and associates which operate independent businesses in Hong Kong, the Mainland of China and overseas. Notwithstanding these subsidiaries and associates are separate legal entities, the Company has implemented a management governance framework (the "Governance Framework") to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and associates.

During the year, the Company undertook a review of the Governance Framework to refine the management governance requirements and enhance the implementation process, promoting increased collaboration of the corresponding functions at the Company on the one hand and the subsidiaries and associates on the other hand.

Pursuant to the Governance Framework, the Company exercises its control and oversight through formulation of a governance structure that is tailored for individual subsidiaries and associates through adoption of management practices and policies that are appropriate to the business nature and local situation, taking into account the management

governance requirements of the Company. The governance structures of the subsidiaries and associates, as a result, will ensure adequate internal controls, consultation with and notifications to the Company on important matters, and complemented by regular reporting and assurance. Compliance with relevant management practices and governance structure is reported by subsidiaries and associates with significant operations on an annual basis.

## Business Ethics

Practising integrity and responsible business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company in terms of ethical practices and obliges staff to operate transparently and under the highest principles of fairness, impartiality and integrity in all of the places where the Company does business.

The Code is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Education programmes are in place to raise staff awareness. Staff members are also encouraged to report existing or perceived violations or malpractices. Proper procedures have already been put in place pursuant to the whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

To enable new recruits to embrace the Company's values and ethical commitments, they will be briefed on the Code of Conduct as part of the staff induction programmes. The Code of Conduct is also uploaded onto the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)).

In addition, the Code of Conduct serves as a guideline to establish a comparable ethical culture in our subsidiaries and associates in Hong Kong, the Mainland of China and overseas.

## External Auditor

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services, for

complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 9D to the accounts on page 231 of this Annual Report.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years in accordance with the Hong Kong Institute of Certified Public Accountants/ International Federation of Accountants Code of Ethics.

## Communication with Shareholders

### Annual General Meeting (the “AGM”)

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. It has been the practice for the Chairman of the Company, the chairman of each Board Committee, all Members of the Executive Directorate and the External Auditor of the Company to attend AGMs to answer shareholders' questions.

The 2016 AGM was held on 18 May 2016 at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong. To facilitate the Company's shareholders who did not attend the AGM, the whole proceedings were webcast and posted on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)) in the same evening.

The 2017 AGM has been scheduled on 17 May 2017 and it is planned to continue providing simultaneous interpretation to facilitate smooth and direct communication between the shareholders of the Company and the Company's Directors and management.

### Resolutions passed at the 2016 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2016 AGM. Before the

resolutions were considered, the Chairman exercised his right as the Chairman of the 2016 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of nine resolutions were passed at the 2016 AGM (with resolution no. 3 comprising three separate resolutions), each supported by over 93% of the votes cast at the 2016 AGM. The full text of the resolutions is set out in the 2016 AGM Circular (which comprised Notice of the 2016 AGM) to the Company's shareholders dated 14 April 2016. For the benefit of those shareholders who did not attend the 2016 AGM, below is a succinct summary of the resolutions passed:

- (1) Adoption of the audited Statement of Accounts and the Reports of the Directors and the Auditors of the Company for the year ended 31 December 2015;
- (2) Declaration of a final dividend of HK\$0.81 per share for the year ended 31 December 2015;
- (3) (a) Re-election of Mr Vincent Cheng Hoi-chuen as a Member of the Board of Directors of the Company;  
(b) Election of Mr Lau Ping-cheung, Kaizer as a Member of the Board of Directors of the Company; and  
(c) Election of Dr Allan Wong Chi-yun as a Member of the Board of Directors of the Company;
- (4) Election of Mr Anthony Chow Wing-kin as a new Member of the Board of Directors of the Company;
- (5) Re-appointment of KPMG as Auditors of the Company and authorisation of the Board of Directors to determine their remuneration;
- (6) Grant of a general mandate to the Board of Directors to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding ten per cent. of the aggregate number of shares in issue at the date of this resolution\*; and
- (7) Grant of a general mandate to the Board of Directors to purchase shares in the Company, not exceeding ten per cent. of the aggregate number of shares in issue at the date of this resolution\*.

\* (The full text of the resolution is set out in the Notice of the 2016 AGM.)

The poll results were posted on the websites of both the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange on the same day after the AGM.

## General Meeting

The Company convened a general meeting on 1 February 2016 (the "General Meeting") at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong for the purpose of obtaining the approval of the Company's independent shareholders in passing an ordinary resolution (the "Ordinary Resolution") in relation to the Express Rail Link project.

The details of the Ordinary Resolution (as set out in the Company's circular dated 7 January 2016) and the poll result of the General Meeting were posted on the websites of both the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange on the same day of the General Meeting.

## Calling General Meetings

Directors of the Company may call a general meeting of the Company.

If shareholders want to call a general meeting of the Company, those shareholders may request the Directors of the Company to do so, provided that the Company has received such requests from shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings. Any such request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting. The requests may consist of several documents in like form; and the request may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests identify a resolution that may properly be moved and is intended to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. The business that may be dealt with at the general meeting includes a resolution of which notice has been accordingly included in the notice of the general meeting. If the resolution is to be proposed as a special resolution, the Directors of the Company are to be regarded as not having duly called the meeting unless the notice of the general meeting includes the text of the resolution and specifies the intention to propose the resolution as a special resolution.

If, within 21 days after the date on which the Company receives the required requests, the Directors of the Company do not proceed duly to call a general meeting, the shareholders who requested the general meeting, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a general meeting, provided that the general meeting must be called for a date not more than 3 months after the date on which the Company receives the required requests.

## Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association.

As regards proposing a person for election as a director, please refer to the "Appointment Procedure for Members of the Board of the Company" which is available on the website of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)).

## Enquiries from Shareholders

The Company has a Shareholders' Communication Policy (available on the website of the Company ([www.mtr.com.hk](http://www.mtr.com.hk))) to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company's Shareholders Communication Policy has set out, amongst other things, a channel for shareholders' access to the Board and management by writing to the Company Secretary of the Company.

Please also refer to the Investor Relations section (pages 112 to 113) of this Annual Report on other means of communication with shareholders.

## Constitutional Document

The Company's Articles of Association (in both English and Chinese) is available on both the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange. During the year ended 31 December 2016, there was no change to the Articles of Association.

For and on behalf of the Board

Gillian Elizabeth Meller  
Company Secretary  
Hong Kong, 7 March 2017