

# REMUNERATION COMMITTEE REPORT

## INTRODUCTION

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the Non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

Throughout the year, the Committee met regularly to discuss and approve remuneration issues pertaining to the Company's core incentive scheme, long-term incentive scheme, and also the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy, and to consider and make recommendations to the Board on the remuneration packages of the Non-executive Directors. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has seven Non-executive Directors, four of whom are independent Non-executive Directors. The Chairman of the Remuneration Committee is an independent Non-executive Director. As necessary and with the agreement of the Chairman of the Remuneration Committee, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

The principal responsibilities of the Remuneration Committee include:

- Formulating a remuneration policy and practices that facilitate the employment of top quality personnel;
- Recommending to the Board the remuneration of the Non-executive Directors;
- Determining, with delegated responsibility, the remuneration packages of Members of the Executive Directorate; and
- Reviewing and approving performance-based remuneration of Members of the Executive Directorate by reference to the Board's corporate goals and objectives.

The Committee's responsibilities are set out in its Terms of Reference and are consistent with the Code.

This Remuneration Committee Report has been reviewed and authorised by the Remuneration Committee of the Company.

## REMUNERATION POLICY

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and the desired mix of fixed and performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognizes the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

## REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are Non-executive Directors. The remuneration of Non-executive Directors is in the form of annual director's fees.

To ensure that Non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the Non-executive Directors; and
- Employment conditions elsewhere in the Company.

Details of the remuneration for Non-executive Directors are set out in note 11 to the accounts. The current Non-executive Director remuneration framework, in effect since 1 January 2017, is set out below:

	(HK\$)
<b>Board</b>	
– Chairman	1,500,000
– Other Members	300,000
<b>Audit Committee and Capital Works Committee</b>	
– Chairman	150,000
– Other Members	90,000
<b>Risk Committee, Remuneration Committee, Nominations Committee, and Corporate Responsibility Committee</b>	
– Chairman	110,000
– Other Members	60,000

## REMUNERATION FOR EMPLOYEES

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- variable incentives – discretionary or performance-based payment and other business-specific cash incentive plans;
- long-term incentives – e.g. restricted shares and performance shares; and
- retirement schemes.

The specifics of these components are described below.

### Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and the individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

### Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and management of the Company are eligible to receive an annual performance-based cash incentive under the Company's Core Incentive Scheme ("CIS"), the terms and rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and the individuals. The Company's performance is measured by both financial and non-financial factors including:

### Financial Factors

- Operating profit;
- EBITDA margin; and
- Hong Kong property development profits.

## Non-financial Factors

- Results from Customer feedback surveys;
- Fulfillment of the Customer Service Pledges; and
- Fulfillment of Performance Requirements in relation to “Train Service Delivery”, “Passenger Journeys on Time” and “Train Punctuality” as defined in Schedule 2, Part 1 of the Operating Agreement.

Payouts will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company’s achievement of all the Customer Service Pledges.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance versus the Performance Requirements and Customer Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the payouts under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Performance for the Chief Executive Officer is assessed by the Chairman, and the individual performance ratings for other Members of the Executive Directorate are determined by the Chief Executive Officer.

Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 25-35% of total cash compensation.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

## Discretionary Awards

In 2019, discretionary awards were provided to non-managerial staff with competent or above performance, as a recognition of their contribution to the Company’s good performance and achievements in the past year and to motivate staff to strive for continuous business growth.

In addition, a one-off special discretionary award was granted to all staff including managers in 2019 as a token of appreciation for their contribution over the years.

## Long-Term Incentives

During 2019, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme (formerly the “2014 Share Incentive Scheme”).

### (i) 2007 Share Option Scheme

The 2007 Share Option Scheme was approved and adopted by shareholders at the Company’s Annual General Meeting on 7 June 2007 and terminated on 6 June 2014. Under the terms of the 2007 Scheme, no new grant of options could be made after 5:00 p.m. on 6 June 2014. The Scheme includes a provision which specifies that options cannot be exercised under the Scheme unless the Company has satisfied each of the three Key Performance Requirements included in the Operating Agreement in order for any options to be exercised.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2019 under the 2007 Scheme are set out under the paragraph “Directors’ Interests in Shares and Underlying Shares of the Company” of the Report of the Members of the Board.

Details of the 2007 Scheme and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 11 & 42 to the accounts.

### (ii) Executive Share Incentive Scheme

On 15 August 2014, the Board approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Share Option Scheme on 6 June 2014. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years (unless terminated earlier by the Company).

The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants’ interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

## REMUNERATION COMMITTEE REPORT

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the Executive Share Incentive Scheme as award holders in accordance with the rules of the Executive Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares. Awards under the Executive Share Incentive Scheme were granted to selected employees of the Company, including Members of the Executive Directorate, in 2019. Award holders are entitled to cash dividends accrued in respect of unvested Restricted Shares that are granted on or after 1 January 2018.

Restricted Shares are awarded on the basis of the individual performance of the relevant eligible employee. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period, and any other performance conditions, as determined by the Remuneration Committee from time to time.

In general, the Company will pay to the third party trustee (the "Trustee") monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from shares held as part of the funds of the trust to acquire existing shares from the market. Such shares will be held on trust by the Trustee for the relevant award holder. The Trustee shall not exercise any voting rights in respect of any shares held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested award shares.

As part of the overall governance of the Executive Share Incentive Scheme, the Company reviews scheme features on a regular basis to ensure continued relevance and effectiveness.

Details of the Executive Share Incentive Scheme and shares granted to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme are set out in notes 11 & 42 to the accounts.

### Retirement Schemes

In Hong Kong, the Company operates four retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", with details as follows:

#### (i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

#### (ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

### (iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

### (iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

The Members of the Executive Directorate who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other Members of the Executive Directorate are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Dr. Jacob Kam, the Company's Chief Executive Officer effective from 1 April 2019, participates in the MTR Provident Fund Scheme.

For subsidiary companies in Hong Kong, Macau, the Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPFSO and, in the case of subsidiaries in Macau, the Mainland of China and overseas, their respective local laws and regulations.

## WORK PERFORMED BY THE REMUNERATION COMMITTEE DURING THE YEAR

- Approved the 2018 Remuneration Committee Report as incorporated in the 2018 Annual Report;
- reviewed and approved payouts under the Company's performance-based CIS for the 2018 performance period;
- reviewed and approved restricted share and/or performance share awards for eligible employees under the Executive Share Incentive Scheme;
- conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2019; and
- reviewed and approved the appointment, contract renewal and contract expiry arrangement for Members of the Executive Directorate

## REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 11 to the accounts.

in HK\$ million	2019	2018
Fees	10.0	10.0
Base salaries, allowances and other benefits-in-kind	55.1	61.4
Variable remuneration related to performance	8.1	23.1
Retirement scheme contributions	6.2	7.7
Total	79.4	102.2

Please refer to note 11 to the accounts for information relating to the five highest paid employees of the Company for the year ended 31 December 2019.

Dr Dorothy Chan Yuen Tak-fai  
Remuneration Committee Chairperson  
Hong Kong, 26 February 2020