

# 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 is conscious about continuous improvement in the arena of corporate governance and takes prompt actions in responding to identified improvement opportunities.

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 to the Listing Rules.

With regard to the incidents relating to the Shatin to Central Link ("SCL") project in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company's risk management and internal control systems, and a summary of the key actions identified is set out below:

(a) while "New Projects Delivery and Cost" has long been identified as one of the Company's key risk areas with quality of work embedded therein inherently, the focus of the enterprise level risk has been centered on the project programme and cost risks following the programme delay and cost overrun encountered in the Express Rail Link project. Since the unearthing of the work quality issues relating to the SCL project, the risk of "New Projects Delivery and Cost" has been updated to become "New Projects Quality, Delivery and Cost" to make explicit reference and ensure appropriate focus on the quality element;

(b) to ensure corresponding oversight at the Board level, the Company's Capital Works Committee, with delegated authority from the Board to oversee significant capital projects of the Company, had reviewed and updated its Terms of Reference in 2018 to expand its oversight to matters related to quality management. In addition, following a review by the Capital Works Committee with the support of an external consultant, a total of 48 actionable items covering both short term improvement and long term improvement have been identified for implementation. An aggressive action plan has been put in place with 15 of these improvement actions completed by February 2019 including, in particular,

- the transfer of the quality assurance function from the Projects Division to the Engineering Division for enhanced independent quality assurance;
- the adoption of technologies to strengthen site supervision and monitoring activities with enhanced traceability and key project performance metrics examinable by the project management team and the Executive on a real time basis;
- the delivery of a series of training initiatives across Projects Division targeting working level staff and covering responsibilities with respect to site supervision and quality supervision on site; and
- the establishment of a Review Panel to conduct an in-depth review and redrafting of the existing project management procedures to ensure they remain fit-for-purpose and are in line with the industry best practices.

Implementation of these recommendations is on target and the Capital Works Committee is maintaining an oversight on the progress of implementation;

- (c) the Company's Audit Committee has also mandated management to carry out a review of the Company's internal control and risk management systems for Hong Kong operations, excluding processes and procedures of the Company's Projects Division in light of the separate ongoing investigations, validation and enhancement efforts (the "Review"), with the support of an external consultant, for continuous improvement. The Review has adopted a phased approach and the first phase has started in February 2019; and
- (d) the Internal Audit Department will strengthen their audit coverage in 2019 for construction quality management in respect of the new railway projects. The coverage of these audits will cover specifically the improvement actions relating to the checks and balances processes arising out of the abovementioned review by the Capital Works Committee.

A summary of the background and the latest status of the SCL incidents, as well as the accounting treatment of SCL are set out on pages 75 to 79 and pages 255 to 256 respectively of this Annual Report.

## CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2018, the Company has complied with the Code.

The Company continues to monitor developments in the arena of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of stakeholders.

As mentioned in last year's Report, the Company is supportive of the proposals put forward by the Stock Exchange in November 2017 in a consultation paper entitled "Review of the Corporate Governance Code and Related Listing Rules" to, inter alia, upgrade the current Code provision relating to board diversity to form part of the Listing Rules, to require disclosure of a nomination policy in the Corporate Governance Report and to expand the factors for consideration when assessing the independence of a non-executive director. Since then, the Company has been preparing for the roll out of the new requirements to ensure its readiness for compliance. The Stock Exchange published its consultation conclusions in July 2018 and the new requirements came into effect on 1 January 2019. The Company has complied with all the new requirements.

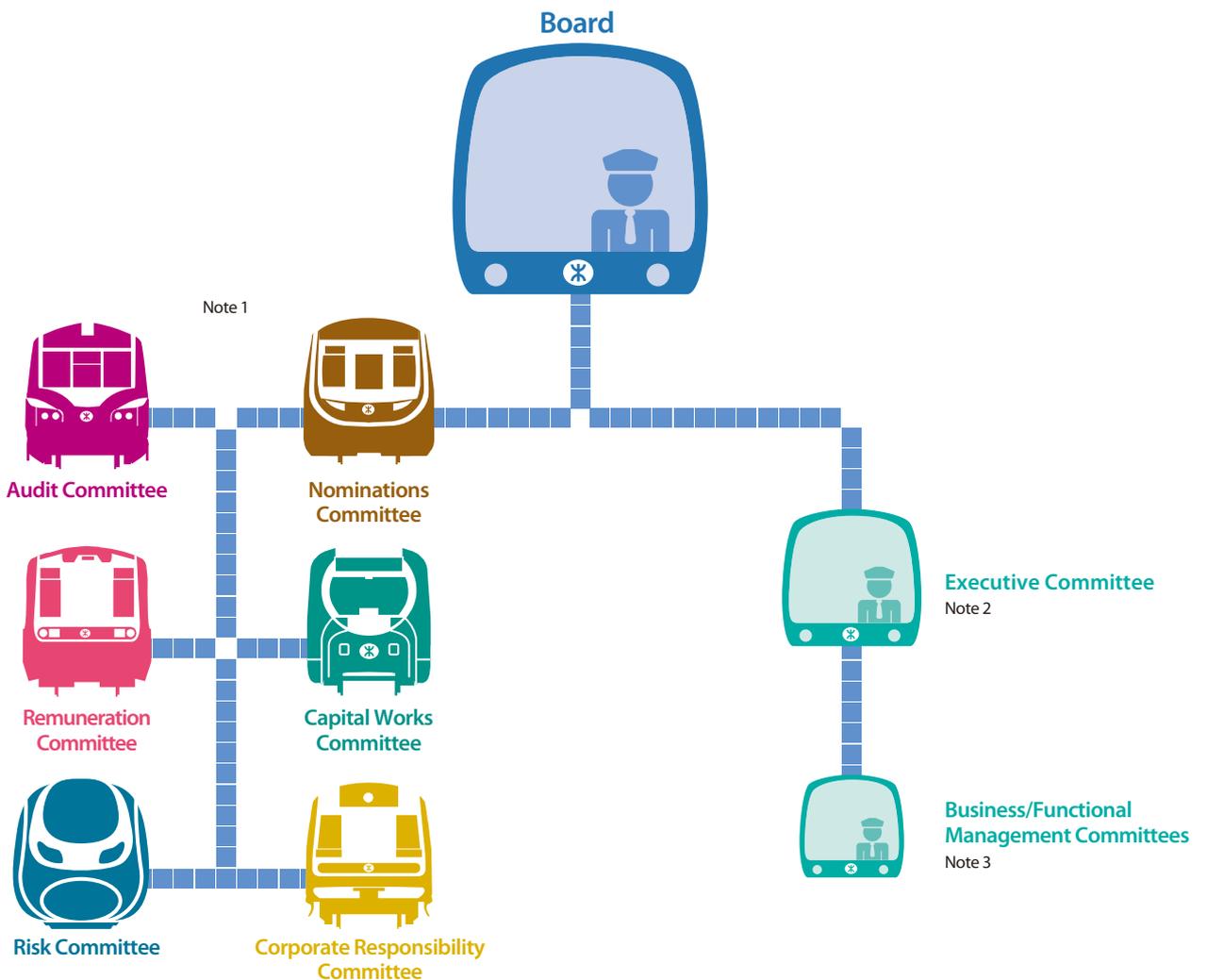
# THE BOARD OF DIRECTORS

## 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.

In 2018, recognising the public concern over the issues related to the SCL project, the Board and the Company's Capital Works Committee (with delegated authority from the Board) had held a number of Special Meetings to consider and monitor the incidents and issues relating to the SCL project.

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") and made up of nine other Members of the Executive Directorate.
3. Key Business/Functional Management Committees are listed out on pages 131 to 132 of this Annual Report.

## Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2018

	Attendance										Annual General Meeting 2018	Training <sup>a</sup>
	Board Meetings				Board Committees Meetings							
	RM	SM	PM	AC	NC	RC	CWC	RiskC	CRC			
<b>Total Number of Meetings</b>	7	4	5	4	1	2	10	4	2	1		
<b>Members of the Board</b>												
<b>Non-executive Directors ("NED")</b>												
Professor Frederick Ma Si-hang <sup>(1)</sup> (Chairman)	7/7	4/4	5/5		1/1	2/2			2/2 <sup>c</sup>	1/1	✓	
James Henry Lau Jr <sup>(2)</sup> (Secretary for Financial Services and the Treasury)	3/7	0/4	2/5		0/1	1/2				0/1	✓	
Secretary for Transport and Housing (Frank Chan Fan) <sup>(3)</sup>	4/7	2/4	3/5		0/1	1/2				0/1	✓	
Permanent Secretary for Development (Works) (Lam Sai-hung) <sup>(4)</sup>	1/1	N/A	0/1				1/1	1/1		N/A	✓	
Commissioner for Transport (Mable Chan) <sup>(5)</sup>	6/7	3/4	5/5	4/4				4/4		0/1	✓	
<b>Independent Non-executive Directors ("INED")</b>												
Andrew Clifford Winawer Brandler <sup>(6)</sup>	6/7	4/4	4/5	4/4				4/4 <sup>c</sup>		1/1	✓	
Dr Pamela Chan Wong Shui	7/7	4/4	5/5		1/1				2/2	1/1	✓	
Dr Dorothy Chan Yuen Tak-fai <sup>(7)</sup>	6/7	2/4	3/5			2/2 <sup>c</sup>	9/10			1/1	✓	
Vincent Cheng Hoi-chuen <sup>(8)</sup>	7/7	3/4	3/5			2/2			1/2	1/1	✓	
Dr Anthony Chow Wing-kin <sup>(9)</sup>	6/7	3/4	3/5			2/2	8/10			0/1	✓	
Dr Eddy Fong Ching	7/7	3/4	4/5	4/4 <sup>c</sup>	1/1					1/1	✓	
James Kwan Yuk-choi	7/7	4/4	5/5				9/10	3/4		1/1	✓	
Lau Ping-cheung, Kaizer	5/7	3/4	4/5				9/10		1/2	1/1	✓	
Rose Lee Wai-mun <sup>(10)</sup>	4/4	4/4	3/4	2/3				3/3		N/A	✓	
Lucia Li Li Ka-lai	7/7	4/4	5/5	3/4					2/2	1/1	✓	
Abraham Shek Lai-him <sup>(11)</sup>	7/7	4/4	5/5		1/1 <sup>c</sup>		9/10			1/1	✓	
Benjamin Tang Kwok-bun	6/7	3/4	4/5			2/2		4/4		1/1	✓	
Dr Allan Wong Chi-yun <sup>(12)</sup>	7/7	3/4	4/5		1/1		10/10 <sup>c</sup>			1/1	✓	
Johannes Zhou Yuan <sup>(13)</sup>	7/7	2/4	4/5	3/4				3/4		1/1	✓	
<b>Executive Director ("ED")</b>												
Lincoln Leong Kwok-kuen (CEO) <sup>(14)</sup>	7/7	4/4	5/5						2/2	1/1	✓	
<b>Members of the Executive Directorate &amp; the Executive Committee</b>												
Lincoln Leong Kwok-kuen	7/7	4/4	5/5						2/2	1/1	✓	
Dr Jacob Kam Chak-pui <sup>(15)</sup>										1/1	✓	
Margaret Cheng Wai-ching									2/2	1/1	✓	
Dr Peter Ronald Ewen										1/1	✓	
Herbert Hui Leung-wah										1/1	✓	
Adi Lau Tin-shing										1/1	✓	
Gillian Elizabeth Meller										1/1	✓	
Linda So Ka-pik									2/2	1/1	✓	
David Tang Chi-fai										1/1	✓	
Jeny Yeung Mei-chun										1/1	✓	
<b>Changes during 2018</b>												
<b>NED</b>												
ex-Permanent Secretary for Development (Works) (Hon Chi-keung) <sup>(16)</sup>	4/6	3/4	3/4				5/9	2/3		0/1	✓	
<b>INED</b>												
Alasdair George Morrison <sup>(17)</sup>	3/3	N/A	1/1	1/1				1/1 <sup>c</sup>		0/1	✓	
<b>Members of the Executive Directorate &amp; the Executive Committee</b>												
Morris Cheung Siu-wa <sup>(18)</sup>										1/1	✓	
Dr Philco Wong Nai-keung <sup>(19)</sup>										1/1	✓	

Legend:

**Board Meetings**

**RM** – Regular Meeting(s)

**SM** – Special Meeting(s)

**PM** – Private Meeting(s)

**Board Committee Meetings**

**AC** – Audit Committee

**NC** – Nominations Committee

**RC** – Remuneration Committee

**CWC** – Capital Works Committee

**RiskC** – Risk Committee

**CRC** – Corporate Responsibility Committee

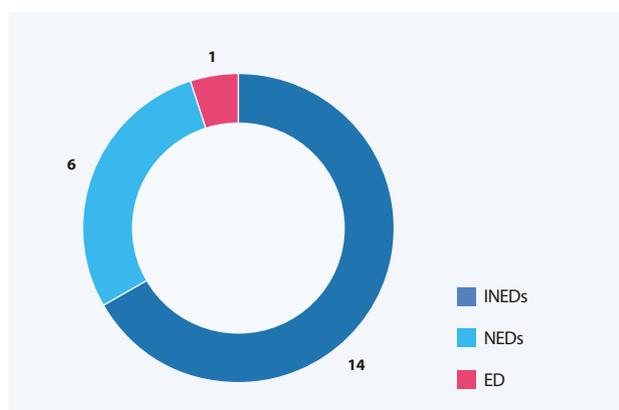
**C** – Chairman of the committee

**Ω** – This includes (i) continuous professional development through attending expert briefings/seminars/conferences relevant to the Company's business or directors' duties arranged by the Company or external organizations, and reading regulatory/corporate governance or industry related updates; and (ii) attending induction and familiarisation programmes for newly appointed Directors

Notes:

1. Professor Frederick Ma Si-hang has been re-appointed by The Financial Secretary Incorporated as Chairman of the Board for a term of six months commencing from 1 January 2019 to 30 June 2019 (both dates inclusive). As announced by the Company on 7 March 2019, Professor Ma will be retiring from the position of Chairman, and will also retire as a Member of the Board, chairman of the CRC and a member of each of the NC and the RC of the Company when his tenure expires after 30 June 2019.
2. The alternate director of Mr James Henry Lau Jr (Secretary for Financial Services and the Treasury), acting on his behalf, attended four RM, three SM, three PM, one NC meeting, one RC meeting and the 2018 Annual General Meeting held on 16 May 2018 ("2018 AGM"). Mr Lau did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.
3. The alternate directors of Mr Frank Chan Fan (Secretary for Transport and Housing), acting on his behalf, attended three RM, one SM, one PM, one NC meeting and one RC meeting. Mr Chan did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.
4. Mr Lam Sai-hung, who was appointed to the post of the Permanent Secretary for Development (Works) with effect from 13 October 2018, had, by virtue of his aforesaid appointment, become a NED and a member of each of the CWC and the RiskC of the Company, with effect from the same date.
5. Ms Mable Chan did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.
6. Mr Andrew Clifford Winawer Brandler, a member of the RiskC, was appointed by the Board as the chairman of the RiskC with effect from the conclusion of the 2018 AGM. He attended one RM and one SM by teleconference.
7. Dr Dorothy Chan Yuen Tak-fai attended one CWC meeting by teleconference.
8. Mr Vincent Cheng Hoi-chuen attended one SM by teleconference.
9. Dr Anthony Chow Wing-kin attended one RM, one SM and one PM by teleconference.
10. Ms Rose Lee Wai-mun was elected as a new Member of the Board and became an INED after the conclusion of the 2018 AGM, and was appointed by the Board as a member of each of the AC and the RiskC of the Company at the same time.
11. Mr Abraham Shek Lai-him attended three RM, one SM, two PM and one CWC meeting by teleconference.
12. Dr Allan Wong Chi-yun attended one CWC meeting by teleconference.
13. Mr Johannes Zhou Yuan attended two SM, one AC meeting and one RiskC meeting by teleconference.
14. As announced by the Company on 7 March 2019, Mr Lincoln Leong Kwok-kuen will retire from his role as the CEO and a Member of the Board, the CRC and the Executive Directorate of the Company, with effect from 1 April 2019.
15. Dr Jacob Kam Chak-pui has taken up managerial oversight of the Projects Division of the Company with effect from 7 August 2018 until such time as a new Projects Director is appointed and has reported for duty. As announced by the Company on 7 March 2019, Dr Kam will be appointed as the CEO, a Member of the Board, and a member of the CRC of the Company, with effect from 1 April 2019.
16. Mr Hon Chi-keung retired from the post of the Permanent Secretary for Development (Works) with effect from 13 October 2018, and, as a result, ceased to be a NED and a member of each of the CWC and the RiskC of the Company, with effect from the same date. The alternate director of Mr Hon, acting on his behalf, attended two RM, one PM, three CWC meetings and one RiskC meeting. Mr Victor Chan Fuk-yiu, a Government nominated representative, attended one CWC meeting on behalf of Mr Hon with the agreement of the CWC. Mr Hon did not attend the SM held on 20 August 2018 in relation to the operational arrangements for the Express Rail Link to avoid any actual or perceived conflict of interest.
17. Mr Alasdair George Morrison retired as an INED and ceased to be the chairman of the RiskC and a member of the AC of the Company, with effect from the conclusion of the 2018 AGM.
18. Mr Morris Cheung Siu-wa ceased to be the President of MTR Academy and a Member of the Executive Directorate of the Company, upon expiry of his service contract with the Company, with effect from 17 July 2018.
19. Dr Philco Wong Nai-keung resigned as Projects Director and ceased to be a Member of the Executive Directorate of the Company, with effect from 7 August 2018.

## Composition of 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 154 to 169 of this Annual Report.

The Board currently has 21 Members, made up of 14 INEDs, 6 NEDs and 1 ED. As shown in the above chart, the number of INEDs currently comprises more than two-thirds of the Company's Board, which is well above the Listing Rules requirement of having one-third of a board made up of independent non-executive directors.

Government, through The Financial Secretary Incorporated, holds approximately 75.48% of the issued shares of the Company as at 31 December 2018, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of her 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 (currently held by Mr Frank Chan Fan);
- The office of the Permanent Secretary for Development (Works) (currently held by Mr Lam Sai-hung); and
- The office of the Commissioner for Transport (currently held by Ms Mable Chan).

The Additional Directors are all NEDs and are treated for all purposes (other than the requirement to retire by rotation according to the Articles) 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.

Mr James Henry Lau Jr, the Secretary for Financial Services and the Treasury, is another NED of the Company.

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 the attendance record of each Member of the Board in 2018 are set out on pages 120 to 121 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 139 to 141) 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 146 to 147) 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 148) 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 Committee Report (pages 149 to 153) of this Annual Report.

## Nominations Committee

Principal responsibilities:

- Reviewing the structure, size and composition (including the perspectives, skills, diversity, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- Identifying individuals suitably qualified to become Members of the Board and putting forward nominations or recommendations to the Board for proposed appointments to the Board;
- Assessing the independence of INEDs and, in case a proposed director will be holding his/her seventh (or more) listed company directorship, his/her ability to devote sufficient time to Board matters;
- Making recommendations to the Board on the appointment or re-appointment of Members of the Board and succession planning for Members of the Board; and
- Nominating and recommending to the Board, candidates for filling the positions of CEO, Finance Director and Chief Operating Officer (provided that the Chief Operating Officer position exists);

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

- The size, structure and composition of the Board and a list of desirable skills/experience/perspectives for the Board;
- The appointment of a new Member of the Board by shareholders at the 2018 AGM;
- The re-election of Members of the Board retiring at the 2018 AGM; and
- An annual assessment of the independence of each INED of the Company.

The Nominations Committee has conducted an annual review of the current size, structure and composition of the Board and considered the same is appropriate in light of the Company's strategy. The Nominations Committee also assessed that the Board currently possesses a balanced mix of skills, experience and diversity of perspectives and is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner.

## 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 106 to 111) of this Annual Report.

Work performed during the year:

- Monitoring of the progress of various youth, elderly and district-level community engagement and investment programmes in Hong Kong and overseas;
- Review and recommendation of the 2017 Sustainability Report to the Board for approval;

- Consideration of the Company's performance on various local and international sustainability indices; and
- Review of a new Sustainability Report Framework.

### 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 and Members of the Executive Directorate, 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 2018, 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 during a year must retire at the first annual general meeting after their appointment and are eligible for election at that meeting.

Except for the Additional Directors, all other Members of the Board are required to retire by rotation. At each annual general meeting of the Company, Members of the Board 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) and the INEDs, specifying the terms of his/her continuous appointment as a NED or an INED and as the chairman or a member of the relevant Board Committee(s), for a period not exceeding three years.

### Nomination Policy

A Nomination Policy (the "Nomination Policy") for documenting the current procedures and practices of the Company was approved by the Board in January 2019, and was posted on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)).

The Nomination Policy sets out the process and procedures for governing the nomination of Members of the Board applicable both to new appointments and re-appointments, except for appointments made by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance and nomination by shareholders of the Company in accordance with the Articles of Association of the Company.

The Board has delegated to the Nominations Committee the authority to identify and assess potential candidates for appointment to the Board through different means and channels, including recommendations from Members of the Board, use of external search firms, and any other means or channels that it deems appropriate.

### Nomination Procedures

In relation to appointments by the Board or by shareholders at a general meeting of the Company, the Nominations Committee will request the candidate to provide his/her biographical information and other information deemed necessary. The Nominations Committee will review and

take reasonable steps to verify the information obtained from the candidate and seek clarification, where required. The Nominations Committee may, at its discretion, invite any candidate to meet with the Nominations Committee members to assist them in their consideration of the proposed nomination or recommendation. The Nominations Committee will then submit its nomination proposal to the Board for consideration and approval or making recommendation to the shareholders for approval.

In case of re-appointments of Members of the Board at a general meeting, the Nominations Committee will review the profile of the Members of the Board who have offered themselves for re-appointment to consider their suitability in light of the strategy of the Company as well as the structure, size and composition of the Board at that time. The Nominations Committee will then make recommendations for the Board's consideration and the Board will, at its discretion, make recommendations to the shareholders.

### Selection Parameters

In evaluating a proposed candidate, including a Member of the Board eligible for re-appointment, the Nominations Committee will consider the following factors (which are by no means exhaustive):

- (i) the strategy of the Company;
- (ii) the structure, size, composition and needs of the Board and its respective Board Committees at the time, taking into account succession planning, where appropriate;
- (iii) the required skills, which should be complementary to those of the existing Members of the Board;
- (iv) the Board Diversity Policy ("BD Policy") of the Company as adopted/amended by the Board from time to time;
- (v) any information obtained through third party references or background checks;
- (vi) any other factors that may be used as reference in assessing the suitability of a proposed candidate, including but not limited to the candidate's reputation for integrity, accomplishments and likely commitment in terms of time and interest;

- (vii) if a proposed candidate will be holding his/her seventh (or more) listed company directorship, the candidate's ability to devote sufficient time to the Board; and
- (viii) the independence of a candidate proposed to be appointed as an INED, in particular by reference to the independence requirements under the Listing Rules.

The Nominations Committee is vested with discretion to take into account such other factors that it may consider appropriate.

### Board Diversity

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 Members of the Board 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. The Company is conscious of maintaining a Board made up with INEDs as the majority, together with an appropriate level of female Members on the Board. While conscious efforts are being taken by the Company to fulfil its pledges, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

The Board 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 Ms Rose Lee Wai-mun as a new INED for appointment at the 2018 AGM. The Committee formed the view that the extensive experience of Ms Lee in listed companies as well as in the banking sector, coupled with her advisory roles in various trade development committees across Hong Kong and the Mainland of China would be a valuable addition to the Board and would further enrich the spectrum of skills, experience and diversity of perspectives of the Board, thereby enhancing the diversity and effectiveness of the Board.

**Gender**



**Designation**



**Age Group**



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



**Outside Directorships (Number of companies)**



**Statutory Confirmations**

For the year ended 31 December 2018, the Company has received confirmation from each INED about his/her independence under the Listing Rules. In light of the amendments to the Listing Rules which have come into effect since 1 January 2019, each INED was also requested to confirm his/her immediate family member(s)' interests (as defined under the Listing Rules).

In discharge of its duties under its Terms of Reference, the Nominations Committee has reviewed the above confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

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.

Before each regular Board meeting, the Company reminds each Member of the Board to update his/her "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration"). 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 or the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) with another Member of the Board or the Executive Directorate.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the “Model Code”). After having made specific enquiry, the Company confirms that all Members of the Board and (where applicable) their Alternate Directors and all Members of the Executive Directorate have complied with the Model Code throughout the year.

Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “SFO”) of the Company, 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 2018 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

The Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions and the latest review was done in March 2019. Below is a summary of the work performed during the year ended 31 December 2018 and up to the date of the Report:

- Development and review of the Company’s policies and practices on corporate governance, including the corporate governance framework, the BD Policy and the Nomination Policy;
- Review and monitoring of the training and continuous professional development of Members of the Board and senior management;
- Review and monitoring of the Company’s policies and practices on compliance with legal and regulatory requirements;
- Development, review and monitoring of the Code of Conduct and Directors’ Manual; and
- Review of the Company’s compliance with the Code.

In spite of the areas identified for improvement arising from the SCL incidents as set out in the Corporate Governance Practices section on pages 117 to 118 of this Annual Report, the Board considers that, overall, the Company’s Corporate Governance Functions 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 Report (formerly known as the “CEO Executive Summary”), provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company for the relevant month, with a look ahead to key issues or events in the following three to six months. During the year, the contents of the CEO Report have been further enriched through inclusion of summary reports to provide key information to the Board in areas such as the Group’s safety performance in different business sectors, financial activities, contingent liabilities, human resources developments and new railway projects. The layout has also been revamped to make the CEO Report more user friendly through the use of more segmentation and appendices. This CEO Report together with the discussions at Board meetings, ensures that Members of the Board have a general understanding of the Company’s business and other key information about the Company, 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.

An electronic meeting solution has been used for the Company’s Board meetings and Executive Committee meetings starting from 2017. Apart from contributing to the Company’s environmental efforts, the electronic meeting solution also enables Members of the Board and the Executive Committee to access meeting documents and join virtual meetings remotely in a secure, efficient and convenient manner.

### **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. To this end, 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 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 Member of the Board’s other interests or appointments.

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director and any Director holding a senior Government position, 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 183 to 202) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been 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 MEETINGS

The Board held 16 meetings in 2018 (seven Regular Meetings, four Special Meetings and five Private Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

### Regular Meetings

At each Regular Meeting, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's different businesses and financial and operational performance.

In addition, other key matters discussed at Board meetings held in 2018 included:

- Corporate Governance matters, including:
  - Receipt of shareholder analysis and investors' feedback;
  - Approval of Directors' Manual updates;
  - Review of the structure, size and composition of the Board;
  - Review of the Board's Corporate Governance Functions;
  - Review of Enterprise Risk Management Reports;
  - Review of the effectiveness of the Company's risk management and internal control systems;
  - Assessment of the independence of the INEDs;
  - Receipt of Corporate Safety Governance Annual Report 2017;
  - Receipt of the proceedings of various Board Committee meetings and MTR Academy Council meetings;
  - Approval of Sustainability Report 2017;
  - Approval of Board Committee composition; and
  - Approval of amendments to the Terms of Reference of the Capital Works Committee;
- 2018 AGM:
  - Recommendation of the election/re-election of Retiring Members of the Board; and
  - Recommendation of the election of a new Member of the Board ;
- Projects:
  - Approval of the Company's proposals for submission to Government for various railway projects under the Railway Development Strategy 2014; and
  - Receipt of updates on the SCL project and related matters;
- Operations:
  - Receipt of updates on signalling replacement and Works Management Office projects;
  - Receipt of updates on major incidents;
  - Receipt of updates on proposed enhancements to the operations of certain railway lines;
  - Approval of asset replacement and upgrading projects;
  - Approval of the operational arrangements for the Express Rail Link project; and
  - Receipt of updates on initial operations of the High Speed Rail;
- Mainland China and International Businesses:
  - Receipt of updates on Mainland China and International Businesses and business development opportunities and approval of potential business investment and partnership opportunities;
  - Approval of tender submission for railway projects overseas;
  - Approval of additional investment in an Australian project; and
  - Approval of entry into a contract for the Operations and Maintenance of the Macau Light Rapid Transit Taipa Line;
- Property:
  - Approval of property development tender awards in Hong Kong; and
  - Receipt of updates on property development projects in Hong Kong;
- Human Resources:
  - Approval of 2018 Annual Pay Review;
- Commercial and Marketing:
  - Award of contract for advertising sales agency services relating to some of the railway lines in Hong Kong;
  - Review of the principles for revising the Company's fares under the Fare Adjustment Mechanism (the "FAM");
  - Approval of the Controlled Fares for 2018 under the FAM; and
  - Approval of tender award for Duty Free Shops at Hong Kong West Kowloon Station;

- Financial:
  - Approval of 2017 Annual Report and Accounts;
  - Approval of 2018 Interim Report and Accounts;
  - Receipt of Ngong Ping 360 Limited 2017 annual results;
  - Approval of 2019 Budget and Longer Term Forecast; and
  - Approval of the renewal of US\$5 Billion Debt Issuance Programme.

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

During 2018, a total of four Special Meetings were held of which three were designated to consider matters relating to the SCL project, senior management changes of the Company and associated interim organisation arrangements, and the remaining meeting was held to consider the operational arrangements for the Express Rail Link.

### Private Meetings

During 2018, the Chairman held five Private Meetings at which a range of matters, including management organisation and personnel matters, the SCL project, and certain internal policies and practices of the Company were discussed and considered. In addition, the Chairman met with INEDs only without the presence of other Board Members to discuss general strategy matters of 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 120 to 121 of this Annual Report.

## 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 which covers:

- the roles of a director from the strategic, planning and management perspectives, as well as the essence of corporate governance and the trends in these areas; and
- the general and specific duties of a director under general law (common law and legislation) and the Listing Rules.

In addition to the above, a Familiarization Programme to understand the key areas of the Company's business and operations is 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 by the Board on 8 January 2019.

### 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 at the cost of the Company.

#### Training

Materials on the subject of corporate governance and e-learning provided by the Stock Exchange are provided/ notified 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, which is set out on page 117 of this Annual Report.

### Senior Executives

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

To support the enhancement of the business acumen, leadership and management skills of the Senior Executives, professors from renowned business schools are engaged to share cutting-edge research and insights on thought leadership, contemporary management and business topics. For learning from other leading businesses, an “Executive Leaders Consortium” has been established with other leading companies in Hong Kong, providing a platform for Senior Executives to learn and benchmark best practices with other leading companies. Senior Executives have been actively participating in the above 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 2018, 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 2018, 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 2018, 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 (the “External Auditor”) are set out on page 136 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
- 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
- Macau 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
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)
- Corporate Cyber Security Committee
- Corporate Security Management Committee
- Railway Development Steering Group

### Internal Audit

The Internal Audit Department (“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 reports are rectified within a reasonable time. 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 risks are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee including 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 142 to 145) of this Annual Report.

### Board Oversight

The Board, assisted by the Risk Committee and the Audit Committee respectively, oversees the Company’s ERM system and internal control system on an ongoing basis and reviews the effectiveness of the systems at least annually. The duties of and work performed in 2018 by the Risk Committee and Audit Committee respectively are set out in the “Risk Committee Report” (pages 146 to 147) and “Audit Committee Report” (pages 139 to 141) 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, Corporation General Instruction(s) (“CGI(s)”), 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 the Audit Committee.

Divisional Directors, Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are required to conduct annual assessments and certifications 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 Committee 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 the handling and dissemination of Inside Information. The system includes the following:

- A CGI sets out:
  - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;
  - (ii) the responsibilities of Model Code Managers (as defined below) 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 for disclosure of Inside Information;
- Training is provided to Members of the Board and the Executive Directorate, Executive Managers, Department Heads and managers who are classified as Model Code Managers (on the basis that they are likely to be in possession of Inside Information because of their positions in the Company) from time to time. In particular, Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers have been required to complete a computer-based training programme ("CBT Programme") on Inside Information. The CBT Programme was re-run in October 2018 and will be re-run periodically to provide continuous training; and
- On-going training sessions on the latest developments/requirements of the SFO are arranged as appropriate.

The Board considers that the Company's existing system and measures are effective and appropriate compliance mechanisms to provide assurance that the Company and its officers observe their disclosure obligations in respect 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 an 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 2018, the Risk Committee, with delegated authority from the Board, evaluated the effectiveness of the ERM system of the Company and considered that it was overall effective and adequate. The details are set out

in the “Process of System Effectiveness Review” of the Risk Management section (page 145) of this Annual Report. Nonetheless, as mentioned in the section on Corporate Governance Practices above (pages 117 to 118 of this Annual Report), with regard to the incidents relating to the SCL project in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company’s risk management and internal control systems. A summary of the key actions identified are set out on pages 117 to 118 of this Annual Report.

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

For the year ended 31 December 2018, the Audit Committee, with delegated authority from the Board, evaluated the effectiveness of the internal control system of the Company and its subsidiaries based on the following:

- A review of significant issues arising from internal audit reports and the external audit reports;
- Private sessions with internal and external auditors;
- A review of the 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;
- A 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 Report on 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 overall effective. Nonetheless, there are areas for improvement in relation to the Company’s project management regime as revealed by the SCL incidents, for which control improvement actions are being undertaken to enhance the relevant project management organisation and processes.

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

For the year ended 31 December 2018, 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 risk management and internal control systems of the Company and its subsidiaries and key associates for the year ended 31 December 2018, and considers that such systems are overall effective and adequate, notwithstanding the shortcomings identified in certain areas of the Company's project management processes and execution in relation to which improvement actions have been identified.

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 2018, 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 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 disseminate crisis related information. Regular Crisis Management Team exercises are held to validate the crisis management organisation and arrangements and to provide practices for members.

## 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 the fact that 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.

In 2018, the Company refined the Governance Framework to promote collaboration between the corresponding functions in the Company on the one hand and the subsidiaries and associates on the other hand and enhanced the implementation process to promote a proper Governance Framework in the Company's subsidiaries and associates from inception of any new business operations/investments.

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 (i) imposition of certain internal controls in key areas; and (ii) adoption of management practices and policies that are appropriate to the business nature and local situation. As a result, adequate internal controls will be adopted by subsidiaries and associates and the Company will be consulted and notified on important matters, complemented by regular reporting and assurance. Compliance with this 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 of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Following a regular review in 2017, the revised Code of Conduct has been released to all staff in

early May 2018. Education programmes including seminars and mandatory computer-based training 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 programme. New recruits are also required to complete the mandatory computer-based training programmes within three months of joining the Company. 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 consolidated accounts on page 233 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 2018 AGM was held on 16 May 2018 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 2019 AGM has been scheduled on 22 May 2019 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. The Company is committed to making available meeting facilities to enable all eligible attendees to be able to participate in the AGM. As such, simultaneous sign language interpretation will be provided for the first time at the 2019 AGM.

#### Resolutions passed at the 2018 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2018 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2018 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 12 resolutions were passed at the 2018 AGM (with resolution no. 3 comprising six separate resolutions), each supported by over 99% of the votes cast. The full text of the resolutions is set out in the 2018 AGM Circular (which comprised Notice of the 2018 AGM) dated 12 April 2018.

For the benefit of those shareholders who did not attend the 2018 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 2017;
- (2) Declaration of a final dividend of HK\$0.87 per share for the year ended 31 December 2017;
- (3)
  - (a) Re-election of Dr Eddy Fong Ching as a Member of the Board of Directors of the Company;
  - (b) Re-election of Mr James Kwan Yuk-choi as a Member of the Board of Directors of the Company;
  - (c) Re-election of Mr Lincoln Leong Kwok-kuen as a Member of the Board of Directors of the Company;
  - (d) Re-election of Mrs Lucia Li Li Ka-lai as a Member of the Board of Directors of the Company;
  - (e) Re-election of Mr Benjamin Tang Kwok-bun as a Member of the Board of Directors of the Company;
  - (f) Election of Mr James Henry Lau Jr as a Member of the Board of Directors of the Company;
- (4) Election of Ms Rose Lee Wai-mun 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 as at the date of passing of this resolution\*<sup>1</sup>; and
- (7) Grant of a general mandate to the Board of Directors to buy back shares in the Company, not exceeding ten per cent. of the aggregate number of shares in issue as at the date of passing of this resolution\*<sup>1</sup>.

\* *(The full text of the resolution is set out in the Notice of the 2018 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.

## Calling General Meetings

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

Shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request the Directors of the Company to call a general meeting of the Company.

The requesting shareholders must state in their request the general nature of the business to be dealt with, and may include the text of a resolution to be moved at the general meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy or electronic form, which must be authenticated by the requesting shareholders.

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 include a resolution to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. If the resolution is to be proposed as a special resolution, the Directors of the Company are required to specify the intention to propose the resolution as a special resolution in the notice of the general meeting.

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 104 to 105) of this Annual Report on other means of communication with shareholders.

## CONSTITUTIONAL DOCUMENT

The Company's Articles of Association (in both English and Chinese) are available on the websites of both the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange. During the year ended 31 December 2018, 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 2019