

# Corporate Governance Report

## Corporate Governance Practices

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders and will continuously make efforts to identify and formalise best practices for adoption by the Company.

The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment.

The Company's efforts and achievements in this regard were recognised by the Hong Kong Institute of Certified Public Accountants, who honoured the Company's 2012 Annual Report the Platinum Award (Hang Seng Index Category) in the Best Corporate Governance Disclosure Awards 2013, after having awarded the Company Gold Awards for the previous two years.



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

## Corporate Governance Code Compliance

During the year ended 31 December 2013, the Company has complied with the Code.

The Board recognises that corporate governance should be the collective responsibility of all Members of the Board. In light of the Code provision on corporate governance functions, the Board confirmed at the January 2012 Board Meeting that a separate corporate governance board committee would not be established by the Company. During the year, the Board has performed its corporate governance duties pursuant to the relevant Terms of Reference (available on the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange) through the work done as described in this Report.

The Board held 14 Meetings in 2013 (including seven regular Board Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

The composition of the Board, with 14 non-executive Directors out of the 15-member Board, of whom 10 are independent non-executive Directors (the "INED(s)"), well exceeds the requirements of the Code which requires listed issuers to have INEDs representing at least one-third of the board.

To ensure full compliance with the new Companies Ordinance (the "New CO") which came into operation on 3 March 2014, the Company started reviewing its impact on different aspects of the Company's internal policies and practices as well as on the company's shareholders in 2012, in order to get prepared for the necessary changes well beforehand.

Given Members of the Board and the Executive Directorate are in the driving seat of the Company's business, a briefing on the broad picture of the New CO, followed by another briefing with more insight, were given to them by the Company's external legal advisor jointly with the Legal Director and Secretary ("LD&S") at the Board Meetings in January 2013 and January 2014 respectively. Briefing materials were also copied to all Alternate Directors as part of the Company's continuous training programme.

Separate briefings on the New CO were also given to relevant departments of the Company by the Company's external legal advisor, to keep them abreast of those statutory changes which may have direct or indirect implication on their daily work.

The Directors' Manual, which sets out amongst other things the nature of Directors' duties and the relevant requirements they have to comply with, has been updated to reflect the New CO and distributed to the Directors in January 2014.

Shareholders are the Company's key stakeholders. Therefore, actions have already been taken in reviewing areas where the New CO may affect the shareholders, such as re-designing share certificates to take out the par value of the Company's shares, and any change to shareholders' rights in attending the Company's general meetings.

The Board will also propose certain amendments to the Company's Articles of Association for aligning with the New CO. The proposed amendments will be subject to shareholders' approval by way of a special resolution at the Annual General Meeting (the "AGM") to be held on 8 May 2014. Details will be set out in a circular to the shareholders to be despatched together with the 2013 Annual Report.

The Stock Exchange published consultation conclusions on environmental, social and governance ("ESG") reporting in August 2012 and revised the Listing Rules to encourage

disclosure of information set out in their proposed ESG Guide in companies' annual reports or as a separate report. The Company's Sustainability Report 2012, which was published in June 2013 and is available on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)), followed the internationally-recognised Global Reporting Initiative framework and, for the first time, included key performance indicators from the ESG Guide.

### Corporate Strategy Review

The Board has continued to monitor the Company's program in complying with the strategic direction set as a result of the corporate strategy review held in 2012. Regular updates are provided to the Board on the various aspects of the strategy so that achievements can be tracked and direction provided to the Company's Executive team.

### Board Diversity

The Company adopted a new Board Diversity Policy (the "Policy") in March 2013, before the relevant Code provision became effective six months later and has posted the Policy on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)).

The Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Board members has 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 Nominations Committee is required to give consideration to the Policy when identifying suitably qualified candidates to become Members of the Board, although Board appointments will continue to be made on a merit basis. The Committee, which already has an obligation to review the size, structure and composition of the Board on annual basis (the "Annual Review"), was delegated by the Board to be responsible for compliance with this new Code provision, and the Board will review the Policy on a regular basis to ensure its continued effectiveness.

In February 2013, the Committee conducted the Annual Review and also reviewed a list of desirable skills/experience/perspectives which was developed in 2012 based on responses to a board performance evaluation questionnaire sent to all Members of the Board. At the meeting, it was noted that the Board was well composed from a diversity perspective and operated ahead of or in line with best practice from a structure perspective. The list of desirable skills/experience/perspectives was also updated in light of the Company's business strategy and development.

The Policy was taken into account by the Committee and the Board in the appointments of Professor Frederick Ma Si-hang, Mrs. Pamela Chan Wong Shui and Dr. Dorothy Chan Yuen Tak-fai as three new Independent Non-executive Directors of the Company ("INEDs") in July 2013. The diversity of the Board was further enhanced in terms of balance of skills and experience, genders, range of ages and professional background.

Following the appointments of the three new INEDs, the number of INEDs has increased from seven to 10 and INEDs now comprise two-thirds of the Company's Board. This ratio exceeds the Listing Rules requirement to have independent non-executive directors representing at least one-third of the board. The number of female Board Members has also increased from two to four, representing approximately 27% of the Board. The Company was ranked in second place, in terms of women on board, amongst 50 leading companies listed on the Hang Seng Index, in a study conducted in 2014 by Community Business, a Hong Kong non-profit organisation.

Coming from diverse business and professional backgrounds, the non-executive Directors actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. On the other hand, the INEDs 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.

The Company's recognition of the importance and benefits of diversity in the boardroom was not only reflected in its early adoption of a Board Diversity Policy, as mentioned above, but is also evidenced in the composition of the Board, on which both genders are represented, together with a broad range of ages, experiences and professional backgrounds.

Biographical details (including roles, functions, education, skills and experience) of each of the Members of the Board and the Executive Directorate are set out in the "Board and Executive Directorate" section on pages 124 to 131 of this Annual Report, and are also available on the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)).

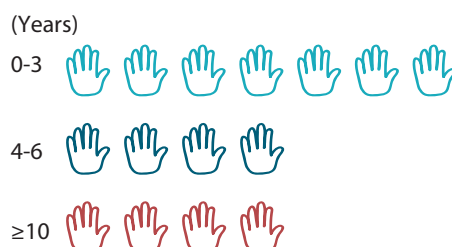
# Corporate Governance Report

## Board Diversity

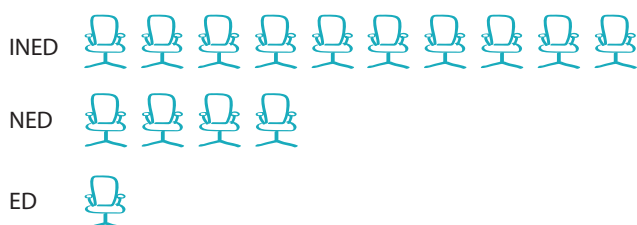
### Gender



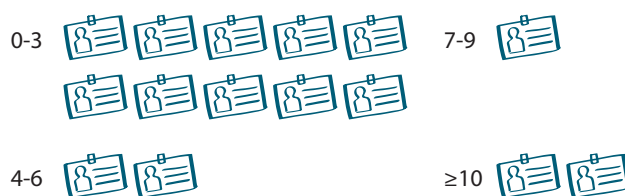
### Number of Years with MTR



### Designation



### Outside Directorships (Number of listed companies)



### Age Group



## 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 strategies, treasury policies and fare structures.

### Board Composition

As outlined earlier, the Company has 10 INEDs on the 15-member Board, and the Chief Executive Officer ("CEO") is the only executive Director on the Board.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the Government in October 2012 as the non-executive Chairman with effect from 1 January 2013 until 31 December 2015.

Mr. Jay Herbert Walder was appointed as the CEO for an initial term of 30 months with effect from 1 January 2012. He became both a Member of the Executive Directorate and a Member of the Board of Directors with effect from the same date. In August 2013, Mr. Walder was reappointed as the CEO until 31 August 2015.

Professor Frederick Ma Si-hang, Mrs. Pamela Chan Wong Shui and Dr. Dorothy Chan Yuen Tak-fai were appointed as additional INEDs effective from 4 July 2013.

The Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". At present, two of the non-executive Directors (being the office of the Secretary for Transport and Housing ("S for T&H") and the office of the Commissioner for Transport ("C for T")) are appointed as the "additional

directors" (the "Two Additional Directors"). During the year, Professor Anthony Cheung Bing-leung held the post of the S for T&H and Mrs. Ingrid Yeung Ho Poi-yan was the C for T. Another non-executive Director, Professor Chan Ka-keung, Ceajer, is the Secretary for Financial Services & Treasury ("S for FS&T"). The Government, through The Financial Secretary Incorporated, holds approximately 76.48% of the issued share capital of the Company.

### Statutory Confirmations

For the year ended 31 December 2013, the Company has received confirmation from each INED about his/her independence under the Listing Rules. As part of its duties set out in its Terms of Reference, the Nominations Committee has reviewed these confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company and make contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. In light of the Code provision on directors' time commitments, the Chairman held a private Board Meeting (without the presence of the CEO and other Members of Executive Directorate) in April 2013 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them.

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 issuer, all Members of the Board have agreed to disclose their Commitments to the Company in a timely manner. As one of the enhancements in corporate governance, the Company, starting from mid 2013, proactively forwards to each Board Member a set of "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration") for review before each regular Board Meeting to facilitate them in declaring any possible conflict of interest at the Meetings. The Declaration of each Alternate Director will also be sent to him/her for update on a quarterly basis. In addition, each Member of the Board and Alternate Director has confirmed his/her other directorships, major appointments and interests to the Company twice a year.

During a regular internal review, it was found that there was a late reporting to HKSE on a derivative interest granted by the Company to an Executive Director in the year. The relevant statutory form together with explanation on the late reporting was then immediately filed with the HKSE. There are established processes and channels for capturing matters of such nature for reporting purposes. To prevent reoccurrence of similar incidents, the Company has introduced new measures to strengthen the internal processes and will keep under review from time to time.

Save as disclosed in this Annual Report, none of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although the Two Additional Directors were both appointed by the Chief Executive of the HKSAR, Professor Chan Ka-keung, Ceajer is the S for FS&T of the Government, and Mrs. Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai, Ms. Christine Fang Meng-sang, Mr. Vincent Cheng Hoi-chuen, Mr. Edward Ho and Mr. Alasdair George Morrison sit on various government advisory committees.

A list of Members of the Board and the Executive Directorate and their roles and functions is available on both the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange websites. Biographies of the Members of the Board and the Executive Directorate, and the other Member of the Executive Committee are set out on pages 124 to 131 of this Annual Report.

### Directors' Insurance

As permitted under its 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 will benchmark the amount of cover against other similar companies and will consider whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2013 was that the level of cover was adequate and, given this limit, 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 has conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions, and considered that the Company's (i) policies and practices on corporate governance; (ii) approach to the continuous professional development of Directors and senior management; (iii) policies and practices on compliance with legal and regulatory requirements; and (iv) Code of Conduct and Directors' Manual, are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

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

# Corporate Governance Report

## Chairman and Chief Executive Officer

The posts of Chairman and CEO are distinct and separate (please also refer to their appointments on page 102 of this Annual Report). The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the CEO and other Members of the Executive Directorate. Apart from making sure that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman provides leadership for the Board, and ensures views on all principal and appropriate issues are exchanged by all Directors (including the non-executive Directors) in a timely manner, by encouraging them to make a full and effective contribution to the discussion. Under the Chairman's guidance, all decisions have reflected the consensus of the Board.

As head of the Executive Directorate and chairman of the Executive Committee (which comprises eight other Members of the Executive Directorate, and General Manager – Corporate Relations), the CEO is responsible to the Board for managing the business of the Company.

## 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 LD&S and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or LD&S 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 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 LD&S and agreed by 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, including the railway operations, station commercial and retail related business, progress of projects, property and other businesses, financial performance, legal issues, safety governance, risk management, corporate governance, human resources, sustainability, corporate responsibility and outlook. The CEO also submits his Executive Summary which focuses on the overall strategies, principal issues and key events of the Company, to the Board on a monthly basis. These reports, together with the discussions at Board Meetings, ensure that

Members of the Board have a general understanding of the Company's business and provide 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 LD&S, who is responsible for ensuring that the correct Board procedures are followed and advises 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.

All Directors 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 shareholders as a whole. Amongst others, all Directors are required to declare the nature and extent of their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board at Board Meetings.

Unless specifically permitted by the Articles of Association, a Director cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he has an interest and which he knows is material. For this purpose, interests of a person who is connected with a Director (including any of his associates) are treated as the interests of the Director himself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Director may not be included in the quorum for such part of a meeting that relates to a resolution he is not allowed to vote on but he 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 Director's other interests or appointments.

(Please also refer to the "Material Interests and Voting" section on page 107 of this Annual Report.)

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

## Board Meetings

The Board held seven regular Meetings in 2013. At each of these regular Meetings, the Board reviewed and discussed reports on the Company's different businesses and financial performance. In addition, other key matters discussed at these Board Meetings included:

- Principles for revising MTR fares under the Fare Adjustment Mechanism ("FAM") in 2013;
- Hong Kong Train Service Performance Highlights and Systems Upgrade;
- Annual Review of Corporate Governance Functions;
- Board Diversity Policy;

- Report on Internal Control System for the year ended 31 December 2012;
- Corporate Safety Governance Annual Report;
- Enterprise Risk Management Annual Report;
- 2012 Annual Report and Accounts;
- 2013 Interim Report and Accounts;
- 2012 Sustainability Report;
- 2013 Annual General Meeting;
- New Railway Projects – Half Yearly Update;
- International and China Businesses Update;
- Manpower Resourcing for China and International Business Growth;
- Tender Submission for Overseas Projects;
- Property Development Tenders;
- Contracts Awards relating to Railway Projects (such as Shatin to Central Link);
- US\$4 Billion Debt Issuance Programme – Supplemental Prospectus;
- 2012 Staff Attitude Survey Results;
- 2013 Annual Pay Review;
- Nomination of Three New Board Members, Renewal of CEO's contract, Appointment of Additional Board Committee Members and Appointment of Finance Director;
- Proceedings of Corporate Responsibility Committee Meetings and Audit Committee Meetings; and
- 2014 Budget and Longer Term Forecast.

The minutes of Board Meetings are prepared by LD&S 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 comment 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 comment on the draft minutes, they will discuss it at that Meeting, followed by a report on what has been agreed in the minutes of that Meeting. Minutes of Board Meetings are kept by LD&S and are open for inspection by all Members of the Board at the Company's registered office.

Members of the Board approved by circulation an investment in an overseas project, because the timing of approval did not meet the scheduled regular Board Meetings. Neither the substantial shareholder nor a Member of the Board has any interest in this project, and briefings on the project were provided to all Members of the Board.

## Special and Private Board Meetings

In addition to the above regular Board Meetings, the Chairman held four special and three private Board Meetings and two Board Committee Meetings during the year for the following matters/business:

### Special Board Meetings

#### Review of FAM

The subject matter was discussed at the following three special Board Meetings:

1. A special Board Meeting on 7 March 2013;
2. Part of a special Board Meeting on 26 March 2013; and
3. A special Board Meeting on 15 April 2013.

At these three Meetings, the three Government nominated Directors (Professor Chan Ka-keung, Ceajer (S for FS&T), S for T&H (Professor Anthony Cheung Bing-leung) and C for T (Mrs. Ingrid Yeung Ho Poi-yan)) were not present, and they did not receive any papers.

At the special Board Meeting on 26 March 2013, a property development project outside Hong Kong was also discussed. All Board Members including the Government nominated Directors were invited to attend. C for T and the Alternate Director to S for T&H attended this part of the Meeting.

#### Other Business

4. A special Board Meeting on 18 November 2013 – to discuss a tender submission for an overseas project.

### Private Board Meetings

In addition, the Chairman held three private Board Meetings during the year:

5. On 25 April 2013, all non-Executive Directors reviewed (i) the contributions of each non-Executive Director, (ii) the size, structure and composition of the Board, and (iii) the performance of Members of the Executive Directorate;
6. On 22 August 2013, all non-Executive Directors discussed the extension of Mr. Jay Herbert Walder's appointment as CEO of the Company; and
7. On 10 December 2013, all non-Executive Directors were invited to discuss the performance of Members of the Executive Directorate and succession issues.

The attendance record of each Member of the Board (and relevant Members of the Executive Directorate) is set out on page 106 of this Annual Report. References in the notes to Board Meetings numbers 1 to 7 refer to the number allocated to the particular Meetings in this section above.

# Corporate Governance Report

## Meetings Held in 2013

	Board	Special Board	Private Board	Audit Committee	Remuneration Committee	Nominations Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	7	4	3	4	7	3	1	1
<b>MEMBERS OF THE BOARD</b>								
<b>Non-executive Directors</b>								
Dr. Raymond Ch'ien Kuo-fung (Chairman)	7/7	4/4	3/3			3/3	1/1	1/1
Professor Chan Ka-keung, Ceajer	4/7 (Note 1)	1/4	1/3 (Note 1)		6/7 (Note 1)	2/3		1/1
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)	6/7 (Note 2)	0/4 (Note 2)	1/3 (Note 2)			2/3 (Note 2)	1/1	0/1
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	6/7 (Note 3)	2/4	2/3 (Note 3)	4/4 (Note 3)				0/1
<b>Independent Non-executive Directors</b>								
Pamela Chan Wong Shui (since 4 July 2013)	3/3	1/1	2/2				(Note 4)	
Dr. Dorothy Chan Yuen Tak-fai (since 4 July 2013)	3/3	1/1	2/2		2/2 (Note 5)			
Vincent Cheng Hoi-chuen	7/7 (Note 6)	4/4	3/3 (Note 6)		6/7 (Note 6)		0/1	1/1
Christine Fang Meng-sang	7/7	4/4	3/3			3/3	1/1	1/1
Edward Ho Sing-tin	7/7	3/4	3/3		7/7	3/3		1/1
Professor Frederick Ma Si-hang (since 4 July 2013)	3/3	1/1	2/2	1/1 (Note 7)		(Note 7)		
Alasdair George Morrison	6/7	3/4	3/3	4/4 (Note 8)	5/7 (Note 8)			1/1
Ng Leung-sing	6/7	3/4	3/3	4/4 (Note 9)		3/3		1/1
Abraham Shek Lai-him	7/7 (Note 10)	4/4	3/3			3/3 (Note 10)	1/1	1/1
T. Brian Stevenson	7/7	3/4	3/3	4/4 (Note 11)	6/7			1/1
<b>Executive Director</b>								
Jay Herbert Walder (CEO)	7/7	4/4	(Note 12)				1/1	1/1
<b>MEMBERS OF THE EXECUTIVE DIRECTORATE</b>								
Gillian Elizabeth Meller (LD&S)							1/1	
Morris Cheung Siu-wa (Human Resources Director, "HRD")							1/1	

### Notes

- The alternate director of Professor Chan Ka-keung, Ceajer attended two Board Meetings, private Board Meeting no. 5, and one Remuneration Committee Meeting.
- The alternate directors of Professor Anthony Cheung Bing-leung attended one Board Meeting, special Board Meeting no. 2 (as to part) and 4, private Board Meeting no. 6 and a Nominations Committee Meeting.
- The alternate director of Mrs. Ingrid Yeung Ho Poi-yan attended one Board Meeting and private Board Meeting no. 6. Mrs. Yeung attended one Board Meeting and one Audit Committee Meeting by teleconference.
- Mrs. Pamela Chan Wong Shui was appointed as a member of the Corporate Responsibility Committee on 17 September 2013.
- Dr. Dorothy Chan Yuen Tak-fai was appointed as a member of the Remuneration Committee on 17 September 2013.
- Mr. Vincent Cheng Hoi-chuen attended one Board Meeting, one private Board Meeting and one Remuneration Committee Meeting by teleconference.
- Professor Frederick Ma Si-hang was appointed as a member of the Audit Committee and the Nominations Committee on 17 September 2013.
- Mr. Alasdair George Morrison attended two Audit Committee Meetings and one Remuneration Committee Meeting by teleconference.
- Mr. Ng Leung-sing attended one Audit Committee Meeting by teleconference.
- Mr. Abraham Shek Lai-him attended one Board Meeting and one Nominations Committee Meeting by teleconference.
- Mr. T. Brian Stevenson attended one Audit Committee Meeting by teleconference.
- The three private Board Meetings that Mr. Jay Herbert Walder did not attend were held by the Chairman with non-executive Directors only.

## Board Committee Meetings

Two meetings of the Board Committee (comprising the Chairman, the CEO, Professor Chan Ka-keung, Ceajer and the Chairman of the Audit Committee (Mr. T. Brian Stevenson)), with a quorum of two, were also held on 11 March and 26 August 2013 respectively to:

- consider the final dividend for the year ended 31 December 2012 and the 2012 Annual Report and Accounts and recommend the same for shareholders' approval at the 2013 Annual General Meeting, and approve the Preliminary Announcement of Results; and
- approve the interim dividend for the half year ended 30 June 2013, the 2013 Interim Report and the Preliminary Announcement of Unaudited Results.

## Material Interests and Voting

Please refer to the "Board Proceedings" section on page 104 of this Annual Report regarding the common law duty of the Directors to act in the best interests of the Company and the prohibition on them to vote on any contract, transaction, arrangement or any other kind of proposal in which they have a material interest.

## Government's Representatives on the Board

The Government is a substantial shareholder of the Company and has nominated three representatives (the Two Additional Directors and Professor Chan Ka-keung, Ceajer) as Members of the Board and, like any other Director, they are obliged to act in the best interests of the Company.

On appointment to the Board and, as for any other Director, each Government-nominated Director is given a comprehensive, formal and tailored induction programme highlighting, among other things, his/her duties under general law, statutes and the Listing Rules (including the fiduciary duty to act in good faith in the best interests of the Company as a whole, considering the interests of all its shareholders, majority or minority, present and future).

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director is not included in the quorum for that part of the Meeting which relates to the 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 the Government (and its related entities), some of which are

continuing in nature. As the 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 Transaction" and "Continuing Connected Transactions" on pages 143 to 160 of this Annual Report explains how, in accordance with the Listing Rules, these transactions are treated.

(Please also refer to the "Board Proceedings" section on page 104 of this Annual Report regarding Directors' declarations of interest and voting.)

## 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 or by the Board upon the recommendation of the Nominations Committee of the Company. For appointment to be made by shareholders, please refer to the procedures available on the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment.

At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

Additional Directors may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the Additional Directors are treated for all purposes in the same way as other Directors and are, therefore, subject to the normal common law duties of directors, including to act in the best interests of the Company. Please refer to the "Material Interest and Voting" section on this page.

The Company has a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung (non-executive Chairman) and Professor Chan Ka-keung, Ceajer (S for FS&T) but excluding the Two Additional Directors) specifying the terms of his/her continuous appointment as a non-executive Director and a Member of the relevant Board Committee(s), for a period not exceeding three years.



# Corporate Governance Report

At the 2013 Annual General Meeting held on 9 May 2013 (the "2013 AGM"), Mr. Vincent Cheng Hoi-chuen, Ms. Christine Fang Meng-sang and Mr. Edward Ho Sing-tin retired from office by rotation pursuant to Articles 87 and 88, and were re-elected as Members of the Board at the 2013 AGM.

For details of the Members of the Board who will retire from office at the 2014 AGM pursuant to the relevant Articles of Association, please refer to the Circular dated 3 April 2014 to shareholders – Proposed General Mandates to Issue and Repurchase Shares, Proposed Scrip Dividend Scheme, Proposed Amendments to the Articles of Association, Proposed Re-election/election of Directors and Notice of AGM.

## Induction Programme and Other Training

### Induction Programme

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

A tailor-made training programme covering the roles of a director from the strategic, planning and management perspective, as well as the essence of corporate governance and the trends in these areas, was therefore arranged for new Members of the Board (Professor Frederick Ma Si-hang, Mrs. Pamela Chan Wong Shui and Dr. Dorothy Chan Yuen Tak-fai), new Alternate Director (Miss Cinderella Law Fung-ping) and Mr. Stephen Law Cheuk-kin (Finance Director), all of whom were appointed in 2013. Relevant training material was also provided to those who were not able to attend all parts of the programme.

A Familiarization Programme to understand key areas of the Company's business operations was also provided to the above new Board Members, Alternate Director and Finance Director.

All Members of the Board (including their Alternate Directors) 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, following a report on the same at relevant Board

Meeting(s). The latest update to the Directors' Manual was in January 2014, with most of the amendments being made to reflect the New CO coming into operation on 3 March 2014.

### 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, LD&S recommends them to attend relevant seminars and courses. The costs for such training are borne by the Company.

In light of recent developments in the Listing Rules (including in relation to board diversity, the new ESG Guide and trading halts), the New CO and the Competition Ordinance, a briefing on these developments was given in January 2013 to Members of the Board and the Executive Directorate by the Company's external legal advisor jointly with LD&S.

A briefing in greater depth on the New CO was given at the January 2014 Board Meeting by the Company's external legal advisor. The briefing materials were also provided to all Alternate Directors to keep them abreast of latest developments on this front.

In 2013, Members of the Board and Alternate Directors were arranged to visit (i) various construction sites (including that of the West Island Line and the West Kowloon Terminus) to enable better understanding of the progress of the Company's major construction projects in Hong Kong, and (ii) the Super Operations Control Centre to get a deeper understanding of its operations and enhanced facilities.

In October 2013, Members of the Board and the Executive Directorate visited the Headquarters office of Beijing MTR Corporation Limited, in which the Company has a 49% interest, Beijing South Railway Station, Beijing Metro Line 4 and its depot to understand more about the Company's business in Beijing.

Each Member of the Board and the Executive Directorate has also provided to the Company a record of training he/she received during the year.

In 2013, the Members of the Board and the Executive Directorate received training in the following areas:

Directors	Induction Training*	Board Briefings on Company's Businesses/Site Visits	Reading Regulatory Updates and/or attending relevant training sessions
<b>Non-executive Directors</b>			
Dr. Raymond Ch'ien Kuo-fung (Chairman)	N/A	√	√
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)	N/A	√	√
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)	N/A	√	√
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	N/A	√	√
<b>Independent Non-executive Directors</b>			
Pamela Chan Wong Shui	√	√	√
Dr. Dorothy Chan Yuen Tak-fai	√	√	√
Vincent Cheng Hoi-chuen	N/A	√	√
Christine Fang Meng-sang	N/A	√	√
Edward Ho Sing-tin	N/A	√	√
Professor Frederick Ma Si-hang	√	√	√
Alasdair George Morrison	N/A	√	√
Ng Leung-sing	N/A	√	√
Abraham Shek Lai-him	N/A	√	√
T. Brian Stevenson	N/A	√	√
<b>Executive Director</b>			
Jay Herbert Walder (Chief Executive Officer)	N/A	√	√
<b>Other Members of the Executive Directorate</b>			
Lincoln Leong Kwok-kuen (Deputy Chief Executive Officer)	N/A	√	√
Morris Cheung Siu-wa (Human Resources Director)	N/A	√	√
Chew Tai Chong (Projects Director)	N/A	√	√
Jacob Kam Chak-pui (Operations Director)	N/A	√	√
Stephen Law Cheuk-kin (Finance Director)	√	√	√
Gillian Elizabeth Meller (Legal Director and Secretary)	N/A	√	√
David Tang Chi-fai (Property Director)	N/A	√	√
Jeny Yeung Mei-chun (Commercial Director)	N/A	√	√

\* Applicable to new Directors who were appointed in 2013.

# Corporate Governance Report

## Training and Continuous Professional Development – Senior Executives

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

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

To benchmark and learn from other leading businesses in Hong Kong, senior executives from leading companies in different industries are invited to share their success stories, management practices, personal wisdom and insights in in-house seminars. Besides, the Executive Excellence Consortium, that was established with five other founding organisations, provides Senior Executives with a platform for cross-organisational learning and benchmarking of best business practices.

In light of the new disclosure obligations on Inside Information, a “Corporation Notice – Disclosure of Inside Information under the Securities and Futures Ordinance” was issued to all Managers and above in January 2013. Briefings by the Company’s external legal advisor were also organised for the Company’s Officers for them to understand and discuss the new legislation. They can also refresh their memory by accessing the Company’s intranet for a video of the briefing and regular reminders are sent to them with a copy of the relevant Guidelines and the web link for the briefing video.

The Company’s Officers also receive, from time to time, reminders on the Company’s continuing obligations under the Listing Rules in relation to connected/continuing connected transactions and/or notifiable transaction.

## Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group’s profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2013, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2013, 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 are set out on page 116 of this Annual Report.

In support of the above, the accounts presented to the Board have been reviewed by the Members of the Executive Directorate. For both the annual and interim reports and 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 changes in accounting policies adopted by the Company, have been discussed and approved at the Audit Committee before adoption by the Company.

## Board Committees

As an integral part of good corporate governance, the Board has established a total of four Board Committees to oversee particular aspects of the Company’s affairs. Each of these Committees is governed by its respective Terms of Reference which are available on the websites of both the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange.

All Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice, at the Company’s expense, to perform their responsibilities.

### 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 118 to 119) of this Annual Report.

### Remuneration Committee

Members of the Remuneration Committee:

#### INEDs

Mr. Edward Ho Sing-tin (Chairman)  
Dr. Dorothy Chan Yuen Tak-fai (since 17 September 2013)  
Mr. Vincent Cheng Hoi-chuen  
Mr. Alasdair George Morrison  
Mr. T. Brian Stevenson

#### Non-executive Director (“NED”)

Professor Chan Ka-keung, Ceajer

### Duties of Remuneration Committee

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 Members of the Board who are non-executive Directors, determining with delegated responsibility the remuneration packages of the Members of the Board who are executive Directors and other Members of the Executive Directorate, and reviewing and approving performance-based remuneration by reference to the Board’s corporate goals and objectives.

This model which the Committee has adopted is set out in its Terms of Reference and is consistent with the Code.

### Work Performed by Remuneration Committee

In 2013, the Remuneration Committee held seven Meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2012 Remuneration Report as incorporated in the 2012 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2012 performance period;
- Reviewed and approved share option awards for Members of the Executive Directorate and other eligible employees;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2013;
- Conducted a thorough review of the Company's long-term incentive scheme and approved the framework of a new long-term incentive scheme to take effect following the expiry of the 2007 Share Option Scheme, subject to approval by the Board; and
- Determined and approved the remuneration packages for the following Members of the Executive Directorate:
  - Mr. Stephen Law Cheuk-kin as Finance Director (from 2 July 2013); and
  - Mr. Jay Herbert Walder as CEO on his contract renewal for the period from 1 July 2014 to 31 August 2015.

The Remuneration Committee also met on 3 March 2014 to approve the 2013 Remuneration Report, which is set out on pages 120 to 123 of this Annual Report and includes a description of the remuneration policy of the Company.

The attendance record of each Committee Member is shown on page 106 of this Annual Report.

### Nominations Committee

Members of the Nominations Committee:

#### INEDs

Mr. Edward Ho Sing-tin (Chairman)  
 Ms. Christine Fang Meng-sang  
 Professor Frederick Ma Si-hang (since 17 September 2013)  
 Mr. Ng Leung-sing  
 Mr. Abraham Shek Lai-him

#### NEDs

Dr. Raymond Ch'ien Kuo-fung  
 Professor Chan Ka-keung, Ceajer  
 S for T&H (being Professor Anthony Cheung Bing-leung)

### Duties of Nominations Committee

The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board, and the positions of CEO, Finance Director (the "FD") and Chief Operating Officer (the "COO") (provided that the COO position exists). For the positions of FD and COO, the Committee may consider candidates recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates).

The Committee will give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become Members of the Board, although Board appointments will continue to be made on a merit basis.

As mandated by the Board, the Committee reviews the size, structure, and composition of the Board on an annual basis.

### Work Performed by Nominations Committee

In 2013, the Nominations Committee held three Meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Recommendation to the Board on:
  - Adoption of the Board Diversity Policy;
  - Re-appointment of Board Members retiring at the 2013 AGM and offering themselves for re-election, and endorsement of the independence confirmation of each INED;
  - Nomination of three new INEDs and their appointment as additional Board Committee Members; and
  - Appointment of FD; and
- Annual review of the size, structure and composition of the Board and reporting of the review results to the Board.

The attendance record of each Committee Member is shown on page 106 of this Annual Report.

### Corporate Responsibility Committee

Members of the Corporate Responsibility Committee:

#### NEDs

Dr. Raymond Ch'ien Kuo-fung (Chairman)  
 S for T&H (being Professor Anthony Cheung Bing-leung)

#### INEDs

Mrs. Pamela Chan Wong Shui (since 17 September 2013)  
 Mr. Vincent Cheng Hoi-chuen  
 Ms. Christine Fang Meng-sang  
 Mr. Abraham Shek Lai-him

#### Members of Executive Directorate

Jay Herbert Walder (CEO)  
 Morris Cheung Siu-wa (HRD)  
 Gillian Elizabeth Meller (LD&S)

# Corporate Governance Report

## Duties of Corporate Responsibility Committee

The duties of the Committee are to recommend a corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review the Company's annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required. Please also refer to the "Corporate Responsibility" section on pages 94 to 98 of this Annual Report.

## Work Performed by Corporate Responsibility Committee

In 2013, one Corporate Responsibility Committee Meeting was held. The major work performed by the Committee in 2013 included:

- Review of the implementation of the Company's community and staff engagement and communication programmes;
- Review of the sustainability development and environmental management approaches of the Company;
- Review of the Company's corporate responsibility activities; and
- Review of and recommendation for the Board to approve the scope of the 2012 Sustainability Report.

The attendance record of each Committee Member is shown on page 106 of this Annual Report.

## Company Secretary

Ms. Gillian Elizabeth Meller, LD&S and a Member of the Executive Directorate, reports to the CEO. All Members of the Board have access to the advice and services of LD&S, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. On appointment to the Board, LD&S has arranged for each of the Directors (including Alternate Directors) 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. To assist Directors' continuing professional development, LD&S recommends Directors to attend relevant seminars and courses and arranges for training on relevant new or amended legislation or other regulations to be provided at Board Meetings. The costs for such training are borne by the Company. During 2013, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

## Internal Controls

The Board is responsible for the internal control systems of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of the internal control systems. An internal control is defined as a process effected by the Board, Management and other personnel, designed to

provide reasonable assurance 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 functions

Pursuant to 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, finances and shareholders.

Supported by members of the Executive Committee, the CEO, who chairs the Executive Committee is responsible to the Board for the conduct of the business of the Company.

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
- International Business Executive Committee
- China Business Executive 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
- Crisis Management Team
- Corporate Information Security Management Committee

The Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board, and designs, operates and monitors a suitable internal control system which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the internal control system and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including in the areas of construction, business operations, finance, treasury, safety and enterprise

risks. The Executive Committee also ensures that the Company has appropriate insurance coverage in place to transfer risks, where it is effective and cost efficient to do so.

### Risk Assessment and Management

The Company's Enterprise Risk Management ("ERM") framework 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 is 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 responsibilities.

More details of the ERM framework and process are given in the section headed Risk Management on page 99 of this Annual Report.

### Control Activities and Processes

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

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

All Department Heads, including Business and Project Managers for overseas projects, are responsible for ensuring compliance with the statutes and regulations applicable to their own functional units. They are required to identify any new or updated statutes, to assess their impact on the Company's operations, and to review at least once a year that the relevant statutes/regulations have been complied with. Potential and actual non-compliances are also reported to and followed up by Department Heads and significant cases are reported to the respective Divisional Directors and the Executive Committee. Issues relating to compliance with statutes and regulations, including potential and actual non-compliances, and the status of rectification and actions taken to prevent recurrence are reported annually to the Executive Committee and Audit Committee.

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.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal control system of the Company. The Head of Internal Audit reports to the CEO and has direct access to the Audit Committee. The Department 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 effectiveness of the risk management functions of all business and functional units as well as the Company's subsidiaries. Relevant members of the management team are responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The Department produces an annual internal audit plan for the Audit Committee's approval. The audits are selected based on a risk assessment to ensure that business activities with higher risk are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee her opinion on the adequacy and effectiveness of the Company's internal control system.

On behalf of the Board, the Audit Committee evaluates the effectiveness of the internal control system of the Company, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, effectiveness of risk management functions and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. This is achieved primarily through approving the scope of the annual internal audit plan, reviewing the findings of internal audit work, the annual and interim financial statements, and the nature, scope of work, and report of the external auditors, and consideration of the following:

- the changes in the nature and extent of significant risks since the previous review and the Company's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and the internal control system, the work of the Internal Audit Department, and the assurance provided by the Executive Committee;
- the extent and frequency with which the results of monitoring are communicated, enabling the Audit Committee to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance.

# Corporate Governance Report

The processes for assessing internal controls by the Audit Committee include:

- regular interviews with members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial;
- review of significant issues arising from internal audit reports and the external audit report;
- private sessions with internal and external auditors; and
- review of annual assessment and certification of internal controls from members of the Executive Committee, management of overseas subsidiaries and Department Heads in their areas of responsibility.

The Audit Committee has also reviewed papers prepared by the Executive Committee and Internal Audit Department covering:

- Periodic Financial Reports and Accounts;
- Preview of Annual Accounting and Financial Reporting issues;
- Annual Internal Audit Plan;
- Internal Audit Department's Half-yearly Reports;
- Whistle-blowing Reports;
- Report on the Company's Internal Control System;
- Report on Evaluation of Effectiveness of Internal Audit Department;
- Reporting of Outstanding Litigation and Compliance Issues; and
- Enterprise Risk Management Report.

The chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee its 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 FD who will conduct a formal annual review and report the review results to the Audit Committee. Confirmation of the process is also

monitored by the Internal Audit Department. 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.

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's internal control system for the year ended 31 December 2013, covering all material financial, operational and compliance controls, and the risk management function, and concluded that an adequate and effective internal control system is maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

## Crisis Management Team

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 shareholders, the Company has an established mechanism since 1995 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 Crisis Management Team conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. An exercise for the Crisis Management Team was conducted in April 2013. Exercises for the shadow team of the Crisis Management Team were conducted in November 2013. A mechanism and information system to record and disseminate crisis related information has also been put in place.

## Continuous Disclosure Obligations regarding Inside Information

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the disclosure obligations regarding price sensitive information. The system was reviewed by a cross-departmental task force in late 2008 and was considered effective in dealing with the relevant disclosure obligations.

As the disclosure obligations relating to price sensitive information (formerly governed by the Listing Rules) are now governed by the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO") with effect from 1 January 2013, (the "Legislation") in which the term "price sensitive information" was replaced by "Inside Information", the Board has approved the following additional measures to enhance the existing system:

1. Issuance of a set of guidelines setting out:
  - (i) the processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board; and
  - (ii) the responsibilities of officers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff;
2. Providing training sessions to all Members of the Board and the Executive Directorate and Officers who are likely to be in possession of the Company's Inside Information. On-going training sessions on the latest developments/requirements of the SFO will also be arranged when appropriate;
3. Sending regular reminders to the Company's Officers on the continuing obligation of the Company under the SFO with a copy of the Guidelines and the web link of the training sessions videos;
4. Updating the Company's Code of Conduct to take account of the Legislation; and
5. Conducting an annual review of compliance with the Legislation by the Executive Committee, with a report to the Board.

In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep Inside Information in strict confidence.

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

### Governance of Subsidiaries and Affiliated Companies

The Company has a number of subsidiaries and affiliated companies which operate independent businesses in Hong Kong, the Mainland of China and overseas. Notwithstanding these subsidiaries and affiliated companies 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 affiliated companies.

Pursuant to the Governance Framework, the Company exercises its control and oversight in a number of forms: imposition of internal controls, requirements for consent or consultation, reporting requirements and assurance. The management of each subsidiary or affiliated company is responsible for the adoption of management practices and policies that are appropriate to the business nature and local situation, taking into account the management governance requirements of the Company, and developing a corporate governance manual for the entity which reflects both such management practices and policies as well as the management governance requirements, for approval by

the relevant board of directors. Ongoing compliance with the manuals is reported by all subsidiaries and affiliated companies on a regular basis.

The Executive Committee reviews the Governance Framework and compliance by the subsidiaries and affiliated companies on an annual basis. The progress made in the implementation of the Governance Framework is reported to the Audit Committee annually.

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

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

### Business Ethics

Practising integrity and respectable business ethics is paramount to the Company's continued success. The Company's Code of Conduct, Corporate Guidebook for All Staff and Corporate Guidebook for Managers (the "Guidebooks") lay down the requirements of the Company's ethical practices and are basis of efforts to make the Company's business sustainable.

The Code of Conduct and the Guidebooks are reviewed and updated every two years to ensure appropriateness and compliance with the law. The Company requires all staff members to acknowledge their understanding and acceptance of the relevant documents. Staff members are also encouraged to report existing or perceived violations and 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 and the Guidebooks in staff induction programmes. In addition, the Code of Conduct is also uploaded onto the Company's website ([www.mtr.com.hk](http://www.mtr.com.hk)).

The scope of the Code of Conduct has been expanded to cover subsidiaries in the Mainland of China. For this purpose, a simplified Chinese-language version of the Code of Conduct has been made available to staff there. Under the Code of Conduct, all subsidiaries are required to observe relevant local laws and regulations. The Company also promotes a comparable ethical culture in joint venture companies and guidelines on business ethics for staff have been published.



# Corporate Governance Report

## 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 the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out in note 9D to the accounts on page 183 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 Company at least once every seven years.

## Communication with Shareholders

### Annual General Meeting ("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 chairmen of the Board Committees, all Members of the Executive Committee and the External Auditor of the Company to attend AGMs to answer shareholders' questions.

The 2013 AGM was held on 9 May 2013 at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong. To facilitate Shareholders who did not attend the Meeting, the whole proceeding was webcast and posted on the Company's website in the same evening.

The 2014 AGM has been scheduled for 8 May 2014 and it is planned to continue providing simultaneous interpretation to facilitate smooth and direct communication between Shareholders and the Company's Directors and Management.

### Resolutions passed at the 2013 AGM

The Chairman proposed separate resolutions for each substantially separate issue at that AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the Meeting under Article 67 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of nine resolutions were passed at the 2013 AGM (with resolution no. 3 comprising three separate resolutions), each by over 93% of the votes cast at the Meeting. The full text of the resolutions is set out in the AGM Circular (which comprised Notice of the AGM) to shareholders dated 9 April 2013. For the benefit of those shareholders who did not attend the 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 2012;



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- (2) Declaration of a final dividend of HK\$0.54 per share for the year ended 31 December 2012;
- (3) (a) Re-election of Mr. Vincent Cheng Hoi-chuen as a Member of the Board of Directors of the Company;
- (b) Re-election of Ms. Christine Fang Meng-sang as a Member of the Board of Directors of the Company; and
- (c) Re-election of Mr. Edward Ho Sing-tin as a Member of the Board of Directors of the Company.
- (4) Re-appointment of KPMG as Auditors of the Company and authorisation of the Board of Directors to determine their remuneration;
- (5) 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 Company's issued share capital as at the date of this resolution\*;
- (6) Grant of a general mandate to the Board of Directors to purchase shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution\*; and
- (7) Conditional on the passing of resolutions 5 and 6, authorisation of the Board of Directors to exercise the powers to allot, issue, grant, distribute and otherwise deal with additional shares in the Company under resolution 5 in respect of the aggregate nominal amount of share capital in the Company purchased by the Company\*.

\* *(The full text of the resolution is set out in the Notice of the 2013 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.

The Company may also communicate with its shareholders through other general meetings if and when appropriate.

### Calling General Meetings

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

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

meeting must include notice of the resolution. The business that may be dealt with at the general meeting includes a resolution of which notice has been accordingly included in the notice of the general meeting. If the resolution is to be proposed as a special resolution, the Directors of the Company are to be regarded as not having duly called the meeting unless the notice of the general meeting includes the text of the resolution and specifies the intention to propose the resolution as a special resolution.

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

### Procedures for Shareholders Putting Forward Proposals

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

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange.

### Enquiries from Shareholders

The Company has a Shareholders' Communication Policy 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, available on both the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange, 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 on pages 92 to 93 of this Annual Report on other means of communication with shareholders.

### Constitutional Documents

The Company's Memorandum and Articles of Association ("M&A") (in both English and Chinese) is available on both the websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange. During 2013, there is no change to the M&A.

However, as mentioned above, the Board has proposed, for shareholders' approval at the 2014 AGM, certain amendments to the Articles of Association in light of the New CO which has come into force on 3 March 2014.

For and on behalf of the Board

Gillian Elizabeth Meller  
Secretary to the Board  
Hong Kong, 11 March 2014