

Corporate Governance Report

Corporate Governance Practices

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

This Report describes the corporate governance best practices that the Company has adopted and 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 2015, the Company has complied with the Code.

The Company has taken positive steps to enhance its corporate governance framework to prepare for compliance with the new requirements introduced by HKSE in the Code following its consultation conclusions regarding risk management and internal control, which have come into effect for accounting periods beginning on or after 1 January 2016.

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.

Board Composition

The Company currently has 13 Independent Non-executive Directors out of the 19 Members on the Board. The Chief Executive Officer of the Company ("CEO") is the only executive Director on the Board.

Chairman and Chief Executive Officer

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, 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 issues are exchanged by all Directors (including non-executive Directors of the Company (the "NEDs")) in a timely manner, by encouraging them to make a full and effective contribution to the discussion.

On 7 July 2015 and pursuant to Article 117 of the Articles of Association, The Financial Secretary Incorporated appointed Professor Frederick Ma Si-hang, a Member of the Board, as the Chairman of the Company with effect from 1 January 2016. On 30 November 2015, Professor Ma was re-designated as a NED from an Independent Non-executive Director of the Company ("INED"). Dr Raymond Ch'ien Kuo-fung retired from the position of the Chairman and as a Member of the Board, the Chairman and a member of the Corporate Responsibility Committee, as well as a Member of the Nominations Committee of the Company when his tenure ended on 31 December 2015.

Mr Lincoln Leong Kwok-kuen, formerly the Acting CEO, was appointed as the CEO for a term of three years commencing from 16 March 2015, and continues to be a member of the Executive Directorate of the Company. He was also appointed as a Member of the Board and a Member of the Corporate Responsibility Committee of the Company with effect from the same date.

As head of the Executive Directorate and chairman of the Executive Committee (which comprises nine other Members of the Executive Directorate and Deputy Director – Operating), the CEO is responsible to the Board for managing the business of the Company, as well as performing a bridging function between the Board and the Executive Directorate.

Having assessed the responsibilities of the Members of the Executive Directorate and in light of the increasing demand for stakeholder engagement and external communications, a new Corporate Affairs Division (expanded from the Corporate Relations Department) headed by Ms Linda So Ka-pik, Corporate Affairs Director (appointed with effect from 16 September 2015) was established in the second half of 2015, and a new Engineering Division headed by Dr Peter Ronald Ewen, Engineering Director (appointed with effect from 22 February 2016) was established in early 2016 to drive excellence in the engineering functions of the Company and to strengthen its control and check and balance processes.

Independent Non-executive Directors

As mentioned earlier, the Company has 13 INEDs out of the 19-member Board and the INEDs now comprise more than two-thirds of the Company's Board. This ratio well exceeds the Listing Rules requirement to have independent non-executive directors representing at least one-third of a board.

During 2015, changes in INEDs were as follows:

1. Dr Eddy Fong Ching was appointed as an INED with effect from 13 January 2015 and was elected at the Company's 2015 Annual General Meeting held on 20 May 2015 ("2015 AGM");
2. Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun were appointed as INEDs with effect from 11 August 2015;
3. Mr T. Brian Stevenson retired as an INED with effect from the conclusion of the 2015 AGM; and
4. Ms Christine Fang Meng-sang resigned as an INED with effect from 11 August 2015.

Government's Representatives

Government, through The Financial Secretary Incorporated, holds approximately 75.70% of the issued shares of the Company as at 31 December 2015, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of his right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). The Additional Directors are:

1. The office of the Secretary for Transport and Housing ("S for T&H", held by Professor Anthony Cheung Bing-leung);
2. The office of the Permanent Secretary for Development (Works) ("PS for D (Works)", held by Mr Hon Chi-keung (since 7 April 2015) and Mr Wai Chi-sing (up to 6 April 2015)); and
3. The office of the Commissioner for Transport ("C for T", held by Mrs Ingrid Yeung Ho Poi-yan).

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

Another NED, Professor Chan Ka-keung, Ceajer, is Secretary for Financial Services & Treasury ("S for FS&T"). Like other Members of the Board, Professor Chan is subject to the requirement of retirement by rotation in accordance with the Articles of Association.

During 2015, changes in Government's representatives were as follows:

1. Mr Hon Chi-keung was appointed to the post of the PS for D (Works) with effect from 7 April 2015, and by virtue of his appointment, became a NED on the same date; and
2. Mr Wai Chi-sing retired from the post of PS for D (Works) with effect from 7 April 2015, and as a result, ceased to be a NED on the same date.

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 the Company's shareholders, 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). 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. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment.

Excluding the Additional Directors, the Directors to retire by rotation at each annual general meeting of the Company are those Directors 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.

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.

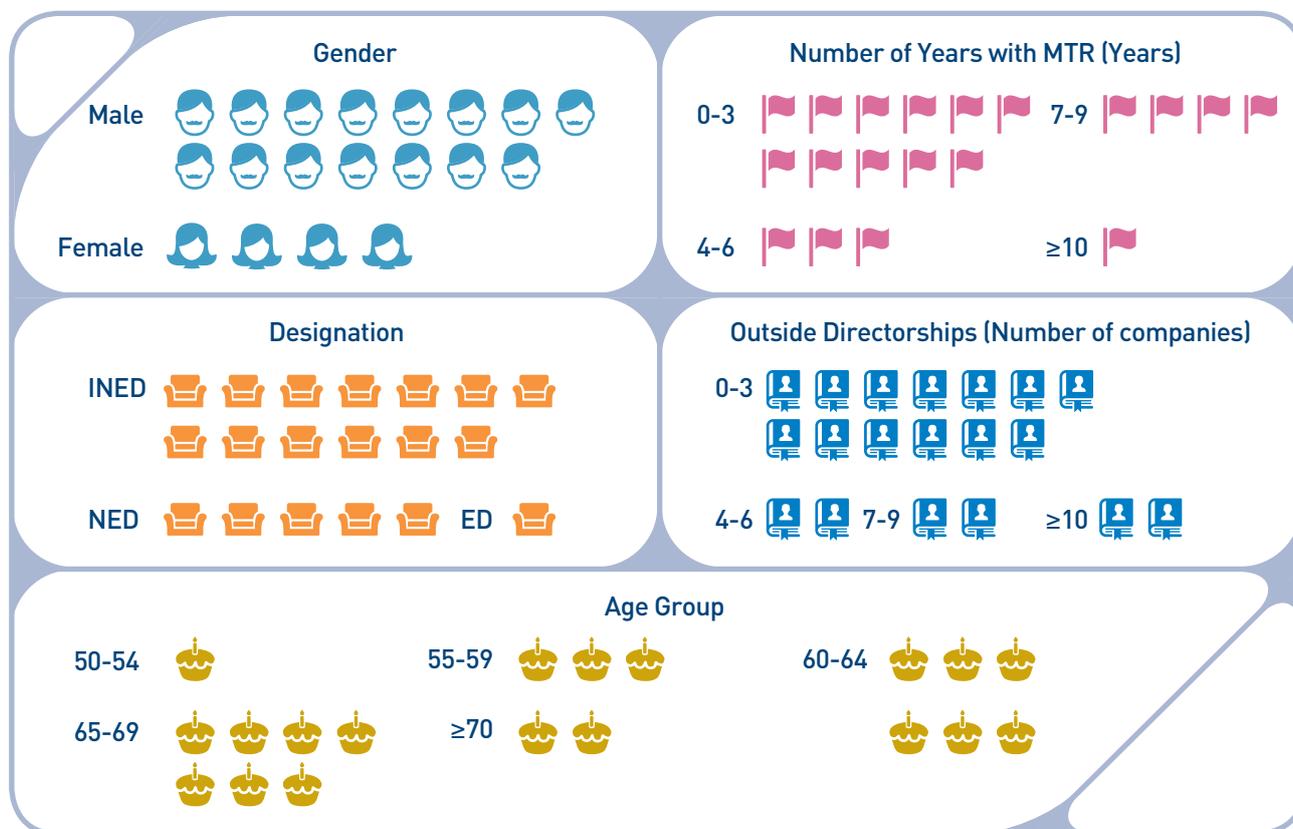
The Company has a service contract with each of the NEDs, with the exception of the three Additional Directors, specifying the terms of his/her continuous appointment as a NED and a Member of the relevant Board Committees, for a period not exceeding three years.

At the 2015 AGM, Dr Raymond Ch'ien Kuo-fung, Professor Chan Ka-keung, Ceajer, Dr Eddy Fong Ching, Mr James Kwan Yuk-choi, Mr Lincoln Leong Kwok-kuen, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun retired from office pursuant to Articles 91 and 92 of the Articles of Association, and were re-elected/elected as Members of the Board at the 2015 AGM.

For details of the Members of the Board who will retire from office at the 2016 annual general meeting (the "2016 AGM") pursuant to the Articles of Association, please refer to the 2016 AGM Circular dated 14 April 2016 to the Company's shareholders – Proposed General Mandates to Issue and Buy Back Shares, Proposed Re-election/election of Retiring Directors, Proposed Election of a New INED and Notice of Annual General Meeting.

Corporate Governance Report

Board Diversity



The Company has a Board Diversity Policy (the “Policy”) which has been posted on the Company’s website (www.mtr.com.hk). The Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective.

The Nominations Committee (the “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 Code provision, and the Board will review the Policy on a regular basis to ensure its continued effectiveness.

In March 2015, the Committee conducted:

- (i) the Annual Review;
- (ii) a review of the achievement of objectives pursuant to the Policy; and
- (iii) a review of a list of desirable skills/experience/perspectives for the Board (the “List”).

At the meeting, the Committee endorsed:

- (i) the effectiveness of the Policy;
- (ii) the List; and
- (iii) that the current size, structure and composition of the Board was appropriate with reference to the Company’s corporate strategy and business needs, the Policy and the List.

The Policy was taken into account by the Committee and the Board in the appointments of Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun as the Company’s new INEDs in August 2015. The appointments of Mr Lau and Dr Wong have added to the spectrum of skills, experience and diversity of perspectives in the Board (in particular, in the areas of capital works, construction, real estate and infrastructure projects), thereby enhancing the effectiveness of the Board.

Coming from diverse business and professional backgrounds, the NEDs 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.

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) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out in the “Board and Executive Directorate” section (pages 132 to 139) of this Annual Report.

Statutory Confirmations

For the year ended 31 December 2015, 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 March 2015 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 disclosed their Commitments to the Company in a timely manner. The Company 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 each Alternate Director has confirmed his/her other directorships, major appointments and interests to the Company twice a year.

Apart from the three Additional Directors and Professor Chan Ka-keung, Ceajer (S for FS&T), Mrs Pamela Chan Wong Shui, Mr Vincent Cheng Hoi-chuen, Mr Lau Ping-cheung, Kaizer, Mrs Lucia Li Ka-lai, Mr Alasdair George Morrison and Mr Benjamin Tang Kwok-bun also sit on various government advisory committees.

Save as disclosed in this Annual Report, none of the Members of the Board and the Executive Directorate has any relationship

(including financial, business, family or other material or relevant relationships) between each other.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the “Model Code”). After having made specific enquiry, the Company confirms that the Members of the Board and the Executive Directorate had 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 (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“SFO”)), 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 2015 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

Corporate Governance Functions Review

In March 2015, the Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions, and considered that the Company’s (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) and the Stock Exchange.

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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 Legal Director and Secretary ("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 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 LD&S with 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, 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 and internal control systems, corporate governance, human resources, sustainability, corporate responsibility and outlook. The CEO Executive Summary was provided to the Board on a monthly basis, including a specific section on the overall progress status of the five new railway projects and their respective cost, with traffic light indicators, in addition to the overall strategies, principal issues and key events of the Company. 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 advising the Board on all corporate governance matters. Members of the Board also have full access to Members of the Executive Directorate as and when they consider necessary.

Material Interests and Voting

All 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 Company's 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/she has an interest and which he/she knows is material. For this purpose, interests of a person who is connected with a Director (including any of his/her associates) are treated as the interests of the Director himself/herself. 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.

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 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 149 to 166) of this Annual Report explains how, in accordance with the Listing Rules, these transactions are treated.

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

Board and Board Committee Meetings

The Board held 21 meetings in 2015 (including eight regular Board meetings, nine Special Board meetings and four Private Board meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

Regular Board Meetings

The Board held eight regular meetings in 2015. At each of these regular meetings, the Board reviewed and discussed matters relating to the Company's different businesses and

financial performance. In addition, other key matters discussed at these Board meetings included:

- Shareholder Analysis and Investors' Feedback;
- Directors' Manual Update;
- Changes of Board Members and changes in the composition of Board Committees;
- Annual Review of size, structure and composition of the Board;
- Annual Review of Corporate Governance Functions;
- Report on Internal Control System for the year ended 31 December 2014;
- Contract Awards relating to railway projects and property work;
- Property Development tender strategy;
- Tender for Advertising Sales Services;
- Tender Submission for overseas projects;
- Express Rail Link Update;
- South Island Line (East), Kwun Tong Line Extension and Shatin to Central Link Enabling Works Updates;
- Update of Programme and Funding Position of New Railway Projects;
- 2015 International Business Update and Business Development;
- Investment Project in the Mainland China;
- Review of various operations' capital asset refurbishment projects;
- 2014 Operational Performance Review and Service Reliability Initiatives;
- Principles for Revising MTR Fares under Fare Adjustment Mechanism in 2015;
- Fare Increase for Guangdong Line Through Train;
- 2016 Budget and Longer-Term Forecast;
- 2015 AGM;
- Election/Re-election of Directors at the 2015 AGM;
- 2015 Annual Pay Review;
- 2014 Annual Report and Accounts;
- 2015 Interim Report and Accounts;
- Sustainability Report 2014;
- Corporate Safety Governance Annual Report 2014;
- Enterprise Risk Management Annual Report 2014;
- Enterprise Risk Management Half Yearly Report;
- Octopus Business Review;
- Ngong Ping 360 Limited 2014 Annual Result;

- Competition Ordinance Update;
- Review of Code of Conduct;
- Changes to the Terms of Reference of the Corporate Responsibility Committee; and
- Proceedings of Audit Committee, Corporate Responsibility Committee, Capital Works Committee and Risk Committee.

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 comments 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 the award of a property development tender (the "Tender Transaction"), in relation to which a briefing of the transaction was provided to all Members of the Board. The Tender Transaction involved, among other things, the Company accepting the offer from Government of the terms of the lease modification for the relevant piece of land (the "Land Transaction"). Professor Chan Ka-keung, Ceajer (S for FS&T), S for T&H (Professor Anthony Cheung Bing-leung), PS for D (Works) (Mr Hon Chi-keung) and C for T (Mrs Ingrid Yeung Ho Poi-yan), who are all Government officials, had abstained from passing the relevant resolutions in writing to the extent relating to the Land Transaction. Subject as aforesaid, neither the substantial shareholder nor a Member of the Board has any interest in the Tender Transaction.

Special Board Meetings

The Chairman held nine Special Board meetings during the year, and a number of matters were covered, including property development tenders, a property investment proposal, the Express Rail Link project and a circular to shareholders in relation to the Express Rail Link project.

Private Board Meetings

The Chairman held four private Board meetings during the year. At these meetings, the Board discussed appointments and the performance of Members of the Executive Directorate, and Board Member succession.

The attendance record of each Member of the Board (and relevant Members of the Executive Directorate) during the year is set out on pages 110 to 111 of this Annual Report.

Corporate Governance Report

Meetings Held in 2015

	Regular Board	Special Board	Private Board	Audit Committee	Nominations Committee	Remuneration Committee	Capital Works Committee	Risk Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	8	9	4	4	3	2	6	4	2	1
Members of the Board										
Non-executive Directors										
Professor Frederick Ma Si-hang (Chairman since 1 January 2016)	8/8 (Note 1)	8/9 (Note 1)	4/4 (Note 1)	4/4 (Note 1)	3/3 (Note 1)	(Note 1)			(Note 1)	1/1
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)	6/8 (Note 2)	2/9 (Note 2)	4/4		3/3	0/2 (Note 2)				0/1 (Note 2)
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)	8/8	3/9 (Note 3)	4/4		3/3	2/2				0/1
Permanent Secretary for Development (Works) (Hon Chi-keung) (since 7 April 2015)	5/6 (Note 4)	2/7 (Note 4)	3/3				5/5 (Note 4)	0/3 (Note 4)		0/1
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	7/8 (Note 5)	5/9 (Note 5)	3/4 (Note 5)	4/4				4/4		0/1
Dr Raymond Ch'ien Kuo-fung (Chairman and a Member of the Board up to 31 December 2015)	8/8	9/9 (Note 6)	4/4		3/3 (Note 6)				2/2 (Note 6)	1/1
Permanent Secretary for Development (Works) (Wai Chi-sing) (up to 6 April 2015)	2/2	2/2	1/1				1/1 (Note 7)	1/1 (Note 7)		
Independent Non-executive Directors										
Pamela Chan Wong Shui	8/8	9/9	4/4		3/3				2/2	1/1
Dr Dorothy Chan Yuen Tak-fai	8/8	5/9	4/4			2/2	5/6			1/1
Vincent Cheng Hoi-chuen	7/8 (Note 8)	7/9 (Note 8)	4/4 (Note 8)			2/2 (Note 8)			1/2 (Note 8)	0/1
Dr Eddy Fong Ching (since 13 January 2015)	7/8	7/9	3/4	4/4 (Note 9)	(Note 9)					1/1
Edward Ho Sing-tin	6/8	6/9	3/4			2/2	6/6			1/1
James Kwan Yuk-choi	8/8	8/9	4/4				6/6	4/4		1/1
Lau Ping-cheung, Kaizer (since 11 August 2015)	3/3	1/2					2/2 (Note 10)		1/1 (Note 10)	
Lucia Li Li Ka-lai	8/8	6/9	4/4	4/4				4/4		1/1
Alasdair George Morrison	8/8	9/9 (Note 11)	4/4	3/4				4/4		1/1
Ng Leung-sing	7/8	8/9	2/4		2/3			4/4		1/1
Abraham Shek Lai-him	8/8 (Note 12)	9/9 (Note 12)	3/4		(Note 12)		4/6		1/2 (Note 12)	1/1
Benjamin Tang Kwok-bun	8/8	8/9	4/4			(Note 13)	6/6 (Note 13)	4/4		1/1
Dr Allan Wong Chi-yun (since 11 August 2015)	3/3	1/2		1/1 (Note 14)			2/2 (Note 14)			
Christine Fang Meng-sang (up to 10 August 2015)	4/4	4/7	3/3		2/3 (Note 15)				1/1 (Note 15)	0/1
T. Brian Stevenson (up to conclusion of the 2015 AGM on 20 May 2015)	3/3 (Note 16)	1/4 (Note 16)	2/2	2/2 (Note 16)		1/1 (Note 16)				1/1
Executive Director										
Lincoln Leong Kwok-kuen (CEO and a Member of the Board since 16 March 2015)	6/6	7/7 (Note 17)	2/2						2/2	1/1
Members of the Executive Directorate										
Gillian Elizabeth Meller (LD&S)									2/2 (Note 18)	
Morris Cheung Siu-wa (European Business Director)									2/2 (Note 19)	
Linda So Ka-pik (Corporate Affairs Director) (since 16 September 2015)									(Note 20)	

Notes:

- 1 Professor Frederick Ma Si-hang attended one Regular Board meeting, three Special Board meetings and one Private Board meeting by teleconference. Professor Ma ceased to be a member and the chairman of the Nominations Committee with effect from 30 November 2015. Professor Ma (i) was appointed as a member and the chairman of the Corporate Responsibility Committee and a member of each of the Nominations Committee and the Remuneration Committee; and (ii) ceased to be a member of the Audit Committee, all with effect from 1 January 2016.
- 2 The alternate director of Professor Chan Ka-keung, Ceajer attended two Regular Board meetings, three Special Board meetings, two Remuneration Committee meetings and the 2015 AGM. Professor Chan had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 3 The alternate directors of Professor Anthony Cheung Bing-leung attended three Special Board meetings. Professor Cheung had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 4 Mr Hon Chi-keung was appointed as a member of each of the Capital Works Committee and the Risk Committee, both with effect from 7 April 2015. The alternate director of Mr Hon attended one Regular Board meeting, one Special Board meeting and two Risk Committee meetings. Mr Hon had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 5 The alternate director of Mrs Ingrid Yeung Ho Poi-yan attended one Regular Board meeting, one Special Board meeting and one Private Board meeting. Mrs Yeung had not attended the Special Board meetings held on 26 and 30 June and 30 November 2015 in relation to the Express Rail Link project to avoid any actual or perceived conflict of interest.
- 6 Dr Raymond Ch'ien Kuo-fung attended four Special Board meetings by teleconference. Dr Ch'ien ceased to be a member and the chairman of the Corporate Responsibility Committee and a member of the Nominations Committee, all with effect from 1 January 2016.
- 7 Mr Wai Chi-sing ceased to be a member of each of the Capital Works Committee and the Risk Committee, both with effect from 7 April 2015.
- 8 Mr Vincent Cheng Hoi-chuen attended three Regular Board meetings, three Special Board meetings, one Private Board meeting, one Corporate Responsibility Committee meeting and one Remuneration Committee meeting by teleconference.
- 9 Dr Eddy Fong Ching was appointed as a member of the Audit Committee with effect from 13 January 2015, and became the chairman of the Audit Committee with effect from the conclusion of the 2015 AGM on 20 May 2015. He was also appointed as a member of the Nominations Committee with effect from 11 August 2015.
- 10 Mr Lau Ping-cheung, Kaizer was appointed as a member of each of the Capital Works Committee and the Corporate Responsibility Committee, both with effect from 11 August 2015.
- 11 Mr Alasdair George Morrison attended two Special Board meetings by teleconference.
- 12 Mr Abraham Shek Lai-him attended one Special Board meeting and one Corporate Responsibility Committee meeting by teleconference. Mr Shek was appointed as a member and the chairman of the Nominations Committee with effect from 30 November 2015 and ceased to be a member of the Corporate Responsibility Committee with effect from 1 January 2016.
- 13 Mr Benjamin Tang Kwok-bun was appointed as a member of the Remuneration Committee and ceased to be a member of the Capital Works Committee, both with effect from 1 January 2016.
- 14 Dr Allan Wong Chi-yun was appointed as a member of each of the Audit Committee and the Capital Works Committee, both with effect from 11 August 2015.
- 15 Ms Christine Fang Meng-sang ceased to be a member of each of the Nominations Committee and the Corporate Responsibility Committee, both with effect from 11 August 2015.
- 16 Mr T. Brian Stevenson attended one Special Board meeting by teleconference. He ceased to be a member and the chairman of the Audit Committee and a member of the Remuneration Committee, all with effect from conclusion of the 2015 AGM held on 20 May 2015.
- 17 Mr Lincoln Leong Kwok-kuen was appointed as CEO and a Member of the Board with effect from 16 March 2015. One Private Board meeting that he did not attend was held by the Chairman with non-executive Directors only.
- 18 Ms Gillian Elizabeth Meller ceased to be a member of the Corporate Responsibility Committee with effect from 1 January 2016.
- 19 Mr Morris Cheung Siu-wa ceased to be a member of the Corporate Responsibility Committee with effect from 1 January 2016.
- 20 Ms Linda So Ka-pik was appointed as a member of the Corporate Responsibility Committee with effect from 1 January 2016.

Corporate Governance Report

Board Committee Meetings

Two meetings of the Board committee, with a quorum of two, were held on 16 March and 13 August 2015 respectively to:

- consider the final dividend for the year ended 31 December 2014 and the 2014 Annual Report and Accounts and recommend the same for shareholders' approval at the 2015 AGM, and approve the Preliminary Announcement of Results; and
- approve the interim dividend for the six months ended 30 June 2015, the 2015 Interim Report and Accounts, and the Preliminary Announcement of Unaudited Results.

Induction Programme and Other Training

Induction Programme

On appointment to the Board, each Member of the Board (including Government nominated Directors) as well as each Alternate Director 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. Each Member of the Executive Directorate, on appointment, is also given the same induction programme.

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 the new Members of the Board (Dr Eddy Fong Ching, Mr Lau Ping-cheung, Kaizer, Dr Allan Wong Chi-yun and the PS for D (Works) (Mr Hon Chi-keung)), and Ms Linda So Ka-pik (Corporate Affairs Director), all of whom were appointed in 2015.

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

The above training programme and Familiarization Programme have also been arranged for Dr Peter Ronald Ewen, who was appointed as Engineering Director and a Member of the Executive Directorate of the Company with effect from 22 February 2016.

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 approved on 12 January 2016.

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 May 2015, a site visit to the Company's first property development project in Mainland China, namely Tiara, was arranged for Members of the Board to provide first-hand information on progress of the development and the sales arrangements. In addition, a site visit to different construction sites of the Express Rail Link project was arranged for Members of the Capital Works Committee to allow them to acquire a better understanding of the site conditions and construction progress. In addition, a Light Rail train ride and a visit to a Light Rail stop to gain better understanding of the physical operational environment was arranged for Members of the Risk Committee during the year.

The Company's external legal advisor gave a briefing to Members of the Board and Members of the Executive Directorate on the topics covered in the annual updates to the Directors' Manual at the 13 January 2015 and 12 January 2016 Board Meetings, as well as an update on the Competition Ordinance in November 2015.

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

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 2015, 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
Members of the Board			
Non-executive Directors			
Professor Frederick Ma Si-hang (appointed as Chairman since 1 January 2016)	N/A	√	√
Professor Chan Ka-keung, Ceajer (S for FS&T)	N/A	√	√
S for T&H (Professor Anthony Cheung Bing-leung)	N/A	√	√
PS for D (Works) (Hon Chi-keung) (since 7 April 2015)	√	√	√
C for T (Ingrid Yeung Ho Poi-yan)	N/A	√	√
Dr Raymond Ch'ien Kuo-fung (Chairman and a Member of the Board up to 31 December 2015)	N/A	√	√
PS for D (Works) (Wai Chi-sing) (up to 6 April 2015)	N/A	√	√
Independent Non-executive Directors			
Pamela Chan Wong Shui	N/A	√	√
Dr Dorothy Chan Yuen Tak-fai	N/A	√	√
Vincent Cheng Hoi-chuen	N/A	√	√
Dr Eddy Fong Ching (since 13 January 2015)	√	√	√
Edward Ho Sing-tin	N/A	√	√
James Kwan Yuk-choi	N/A	√	√
Lau Ping-cheung, Kaizer (since 11 August 2015)	√	√	√
Lucia Li Li Ka-lai	N/A	√	√
Alasdair George Morrison	N/A	√	√
Ng Leung-sing	N/A	√	√
Abraham Shek Lai-him	N/A	√	√
Benjamin Tang Kwok-bun	N/A	√	√
Dr Allan Wong Chi-yun (since 11 August 2015)	√	√	√
Christine Fang Meng-sang (up to 10 August 2015)	N/A	√	√
T. Brian Stevenson (up to conclusion of the 2015 AGM on 20 May 2015)	N/A	√	√
Executive Director			
Lincoln Leong Kwok-kuen (since 16 March 2015)	N/A	√	√
Members of the Executive Directorate			
Lincoln Leong Kwok-kuen (appointed as CEO since 16 March 2015)	N/A	√	√
Morris Cheung Siu-wa (European Business Director)	N/A	√	√
Jacob Kam Chak-pui (Operations Director)	N/A	√	√
Stephen Law Cheuk-kin (Finance Director)	N/A	√	√
Gillian Elizabeth Meller (Legal Director and Secretary)	N/A	√	√
Linda So Ka-pik (Corporate Affairs Director) (since 16 September 2015)	√	√	√
David Tang Chi-fai (Property Director)	N/A	√	√
Philco Wong Nai-keung (Projects Director)	N/A	√	√
Jeny Yeung Mei-chun (Commercial Director)	N/A	√	√

* Applicable to new Directors who were appointed in 2015.

Corporate Governance Report

Training and Continuous Professional Development – Senior Executives

A comprehensive and tailored training programme is developed 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.

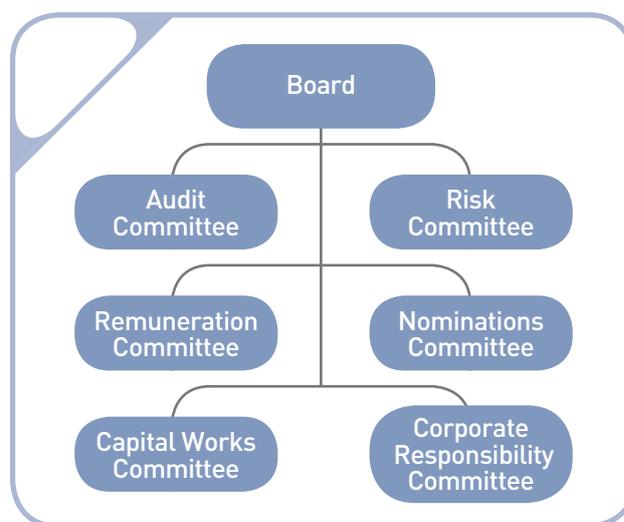
To support the enhancement of the business acumen of senior executives, professors from business schools of renowned universities are engaged to share cutting-edge knowledge across business topics. For learning from other leading businesses in Hong Kong, senior executives from leading companies in different industries are invited to share their success stories, management practices, personal wisdom and insights in the Company's in-house seminars. Besides, the Executive Excellence Consortium, which was established with five other founding organisations, provides Senior Executives with a platform for cross-organisational learning and benchmarking of best business practices. Senior Executives has actively participated in the in-house seminars and the Executive Excellence Consortium.

Accountability

The 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 financial position of the Group as at 31 December 2015, and of the Group's financial performance and cash flows for the year then ended. In preparing the accounts for the year ended 31 December 2015, 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 2015, 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 121 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 Group, have been discussed and approved at the Audit Committee before adoption by the Group.

Board Committees



As an integral part of good corporate governance, the Board has established a total of six 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) 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.

The attendance record of each Member of the Board Committees in 2015 is shown on pages 110 to 111 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 124 to 125) 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 126 to 127) of this Annual Report.

Remuneration Committee

Members of the Remuneration Committee:

INEDs

Dr Dorothy Chan Yuen Tak-fai (Chairman)

Mr Vincent Cheng Hoi-chuen

Mr Edward Ho Sing-tin

Mr Benjamin Tang Kwok-bun (since 1 January 2016)

Mr T. Brian Stevenson
(up to conclusion of the 2015 AGM held on 20 May 2015)

NEDs

Professor Frederick Ma Si-hang (since 1 January 2016)
Professor Chan Ka-keung, Ceajer (S for FS&T)
Secretary for T&H (Professor Anthony Cheung Bing-leung)

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 2015, the Remuneration Committee held two meetings. In accordance with its Terms of Reference, the Remuneration Committee performed the following work during the year:

- Approved the 2014 Remuneration Report as incorporated in the 2014 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2014 performance period;
- Reviewed and approved restricted share and/or performance share awards for eligible employees under the 2014 Share Incentive Scheme;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2015;
- Determined and approved the arrangement with regard to Mr Stephen Law Cheuk-kin's completion of contract as Finance Director ("FD") on 1 July 2016;
- Determined and approved the remuneration packages for the following Members of the Executive Directorate:
 - Mr Lincoln Leong Kwok-kuen as CEO (from 16 March 2015);
 - Ms Linda So Ka-pik as Corporate Affairs Director (from 16 September 2015); and
 - Dr Peter Ronald Ewen as Engineering Director (from 22 February 2016).

Nominations Committee

Members of the Nominations Committee:

INEDs

Mr Abraham Shek Lai-him (member and Chairman, since 30 November 2015)
Mrs Pamela Chan Wong Shui
Dr Eddy Fong Ching (since 11 August 2015)
Mr Ng Leung-sing
Ms Christine Fang Meng-sang (up to 10 August 2015)
Professor Frederick Ma Si-hang (member and Chairman, up to 29 November 2015)

NEDs

Professor Frederick Ma Si-hang (since 1 January 2016)
Professor Chan Ka-keung, Ceajer (S for FS&T)
S for T&H (Professor Anthony Cheung Bing-leung)
Dr Raymond Ch'ien Kuo-fung (up to 31 December 2015)

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, 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 2015, 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:
 - Effectiveness of the Board Diversity Policy;
 - Re-appointment of Board Members retiring at the 2015 AGM and offering themselves for re-election/election, and endorsement of the independence confirmation of each INED;
 - Nomination of new INEDs; and
- Annual review of the size, structure and composition of the Board and reporting of the review results to the Board.

Corporate Governance Report

Capital Works Committee

Members of the Capital Works Committee:

INEDs

Mr Edward Ho Sing-tin (Chairman)
Dr Dorothy Chan Yuen Tak-fai
Mr James Kwan Yuk-choi
Mr Lau Ping-cheung, Kaizer (since 11 August 2015)
Mr Abraham Shek Lai-him
Dr Allan Wong Chi-yun (since 11 August 2015)
Mr Benjamin Tang Kwok-bun (up to 31 December 2015)

NED

PS for D (Works) (Mr Hon Chi-keung, since 7 April 2015 and Mr Wai Chi-sing, up to 6 April 2015)

Duties of Capital Works Committee

The principal duties of the Capital Works Committee are to oversee any new works project (including railway and property projects in Hong Kong and overseas) involving design and/or construction with a capital value in excess of a value as assessed by the Board and to report to the Board on the progress of the relevant projects, from both a programme and cost perspective.

Work Performed by Capital Works Committee

In 2015, the Capital Works Committee held six meetings. In accordance with its Terms of Reference, the Committee performed the following work:

- Review progress against approved project programmes for the five major railway extension projects in Hong Kong, i.e. West Island Line, Kwun Tong Line Extension, South Island Line (East), Express Rail Link and Shatin to Central Link (the "Major Railway Extension Projects");
- Review on expenditure against approved budgets for the Major Railway Extension Projects, including cost control systems in place;
- Overview on Property Projects in Hong Kong and Mainland of China with respect to programme and cost;
- Overview on railway projects being undertaken overseas with respect to programme and cost; and
- Review of Internal Audit programme and results of projects-related audits.

Corporate Responsibility Committee

Members of the Corporate Responsibility Committee:

NEDs

Professor Frederick Ma Si-hang (member and Chairman, since 1 January 2016)
Dr Raymond Ch'ien Kuo-fung (member and Chairman, up to 31 December 2015)

INEDs

Mrs Pamela Chan Wong Shui
Mr Vincent Cheng Hoi-chuen
Mr Lau Ping-cheung, Kaizer (since 11 August 2015)
Ms Christine Fang Meng-sang (up to 10 August 2015)
Mr Abraham Shek Lai-him (up to 31 December 2015)

Members of the Executive Directorate

Mr Lincoln Leong Kwok-kuen (CEO, since 16 March 2015)
Ms Linda So Ka-pik (Corporate Affairs Director, since 1 January 2016)
Human Resources Director (since 1 January 2016)
Mr Morris Cheung Siu-wa (European Business Director, up to 31 December 2015)
Ms Gillian Elizabeth Meller (LD&S, up to 31 December 2015)

Duties of Corporate Responsibility Committee

In accordance with the revised Terms of Reference effective from 1 January 2016, the duties of the Corporate Responsibility Committee are to oversee the Company's stakeholder engagement and external communications strategies; recommend to the Board for approval of the Corporate Responsibility Policy; 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; review the Company's environmental and social performance and provide updates to the Board on matters falling within the Committee's remit as required. Please also refer to the "Corporate Responsibility" section (pages 96 to 100) of this Annual Report.

Work Performed by Corporate Responsibility Committee

In 2015, two Corporate Responsibility Committee meetings were held. The major work performed by the Committee in 2015 included:

- Reviewed the implementation of the Company's community and staff engagement programme around youth development, e.g. Youth Forum and Youth Talks;
- Reviewed the Company's sponsorship and donations for the first nine months and the focus of the Company's in-kind and financial contributions to the community;
- Reviewed the feedback on the 2014 Sustainability Report and the planned approach to the 2015 Sustainability Report;
- Reviewed the direction of the Company's corporate responsibility activities;
- Reviewed and recommended the Board to approve the 2014 Sustainability Report; and
- Reviewed the Company's Art in Station programme.

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 2015, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

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

The Executive Committee is responsible for implementing the Board's policies on risk management and internal controls. 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 and an ERM system which implement the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the internal control system and the 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.

Systems Overview

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
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)

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.

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 101 to 103) of this Annual Report.

The Board, assisted by the Risk Committee, oversees the Company's ERM system on an ongoing basis. The duties of the

Corporate Governance Report

Risk Committee and work performed in 2015 are set out in the Risk Committee Report (pages 126 to 127) of this Annual Report.

In addition, the Board, assisted by the Audit Committee, oversees the Company's internal control system on an ongoing basis, and reviews the effectiveness of the internal control system at least annually.

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 General Managers/Project Managers for overseas subsidiaries/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.

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

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

and management initiated investigations are reported to the Executive and the Audit Committee.

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

- 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;
- Providing training sessions to all Members of the Board and the Executive Directorate and the Officers who are likely to be in possession of Inside Information. On-going training sessions on the latest developments/requirements of the Securities and Futures Ordinance ("SFO") will also be arranged when appropriate;
- Sending regular reminders to the Company's Officers on the continuing obligations of the Company under the SFO with a copy of the Guidelines and the web link of the training session videos;
- Updating the Company's Code of Conduct to take account of the SFO; and
- Conducting an annual review of compliance with the SFO 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 considers that the Company's existing system and measures are effective and appropriate compliance mechanisms to safeguard the Company and its Officers in discharging their disclosure obligations in respect of Inside Information.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the risk management and internal control systems 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 risk management functions of the Company and its subsidiaries. Relevant members of the management

team are responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The 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 his opinion on the adequacy and effectiveness of the Company's internal control system.

Evaluation of the Effectiveness of the Risk Management System

For the year ended 31 December 2015, the Risk Committee, with delegated authority from the Board, had evaluated and concluded the effectiveness of ERM system of the Company. The details are set out in the "Process of System Effectiveness Review" of the Risk Management section (page 103) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2015, the Audit Committee, with delegated authority from the Board, had evaluated and concluded the effectiveness of internal control system of the Company and its subsidiaries based on the following:

- 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;
- 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;
- Review of papers submitted/prepared by the Executive Committee and Internal Audit Department ("IAD") covering periodic Financial Reports and Accounts; preview of Annual Accounting and Financial Reporting issues; Annual Internal Audit Plan; IAD's Half-yearly Reports; Whistle-blowing Reports; Report on the Company's Risk Management and Internal Control System; Report on Evaluation of Effectiveness of IAD; and Reporting of Outstanding Litigation and Compliance Issues; and
- The results from internal audits performed during the year on the effectiveness of internal control system of the Company and its subsidiaries.

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

For the year ended 31 December 2015, 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 FD 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.

Corporate Governance Report

Board's Annual Review

The Board has, through the Risk Committee and the Audit Committee, overseen the Company's risk management and internal control systems on an ongoing basis. The Board has conducted its annual review of the Company's and its subsidiaries' risk management and internal control systems for the year ended 31 December 2015, and considers that such systems are effective and adequate. There were no significant control failings, weaknesses or significant areas of concern identified during the year.

The Board has conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2015, 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 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 operation of the Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and to disseminate crisis related information. The Crisis Management Team conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. An exercise for the Crisis Management Team was conducted in July 2015. Exercises for the shadow team of the Crisis Management Team were conducted in November 2015.

Governance of Subsidiaries and Associates

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

appropriate level of control and oversight as a shareholder of these subsidiaries and associates.

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 on important matters, reporting requirements and assurance. The management of each subsidiary or associate 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. Compliance with relevant management practices is reported by subsidiaries and associates with significant operations on an annual basis.

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

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 enhance transparency and operate 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 the law. A comprehensive review of the Code of Conduct was carried out in 2014 and the revised version was released to staff in June 2015. Promotional events and education programmes are in place to raise staff awareness. 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 as part of the staff induction programmes. In addition, the Code of Conduct is also uploaded onto the Company's website (www.mtr.com.hk).

This Code also serves as a guideline to promote a comparable ethical culture in our subsidiary and associates in Hong Kong, the Mainland of China and overseas.

External Auditor

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

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services for complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 9D to the accounts on page 189 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.

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 chairmen of each Board Committee, all Members of the Executive Committee and the External Auditor of the Company to attend AGMs to answer shareholders' questions.

The 2015 AGM was held on 20 May 2015 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 proceeding was webcast and posted on the Company's website in the same evening.

The 2016 AGM has been scheduled for 18 May 2016 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.



2015 AGM

Corporate Governance Report

Resolutions passed at the 2015 AGM

The Chairman proposed separate resolutions for each substantially separate issue at that 2015 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2015 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

A total of 13 resolutions were passed at the 2015 AGM (with resolution no. 3 comprising seven separate resolutions), each by over 93% of the votes cast at the 2015 AGM. The full text of the resolutions is set out in the 2015 AGM Circular (which comprised Notice of the 2015 AGM) to the Company's shareholders dated 16 April 2015. For the benefit of those shareholders who did not attend the 2015 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 2014;
- (2) Declaration of a final dividend of HK\$0.80 per share for the year ended 31 December 2014;
- (3)
 - (a) Re-election of Dr Raymond Ch'ien Kuo-fung as a Member of the Board of Directors of the Company;
 - (b) Re-election of Professor Chan Ka-keung, Ceajer as a Member of the Board of Directors of the Company;
 - (c) Election of Dr Eddy Fong Ching as a Member of the Board of Directors of the Company;
 - (d) Election of Mr James Kwan Yuk-choi as a Member of the Board of Directors of the Company;
 - (e) Election of Mr Lincoln Leong Kwok-kuen as a Member of the Board of Directors of the Company;
 - (f) Election of Mrs Lucia Li Li Ka-lai as a Member of the Board of Directors of the Company; and
 - (g) Election of Mr Benjamin Tang Kwok-bun 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 aggregate number of shares in issue 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 aggregate number of shares in issue at the date of this resolution*; and
- (7) Conditional on the passing of resolutions 5 and 6, to extend the mandate 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 by the addition thereto of a number of shares in the Company representing the aggregate number of shares in the Company purchased by the Company*.

* (The full text of the resolution is set out in the Notice of the 2015 AGM.)

The poll results were posted on the websites of both the Company (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 request may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests identify a resolution that may properly be moved and is intended to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. The business that may be dealt with at the general meeting includes a resolution of which notice has been accordingly included in the notice of the general meeting. If the resolution is to be proposed as a special resolution, the Directors of the Company are to be regarded as not having duly called the meeting unless the notice of the general meeting includes the text of the resolution and specifies the intention to propose the resolution as a special resolution.

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

General Meeting

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

"That for the purposes of implementing the XRL Arrangements, the XRL Agreement be and is hereby approved, confirmed and ratified; the Special Dividend be and is hereby declared and shall be payable, following satisfaction of the conditions contained in the XRL Agreement, in the manner and on the dates determined by the Board; and that the Chief Executive Officer of the Company or any two members of the Board or any two members of the Executive Directorate of the Company be and is/are hereby authorised to do all such further acts and things, agree such amendments or modifications and execute such further documents and deeds (and if necessary apply the common seal of the Company thereto) and take all steps which in his/her opinion may be necessary, desirable and expedient to implement and/or give effect to the terms of the XRL Agreement and the XRL Arrangements and the transactions contemplated thereunder."

Before the Ordinary Resolution was considered, the Chairman exercised his right as the Chairman of the General Meeting under Article 71 of the Articles of Association to call a poll on the Ordinary Resolution conducted by electronic means. The Ordinary Resolution was passed at the General Meeting by over 98% of the votes cast at the General Meeting.

To facilitate the Company's shareholders who did not attend the General Meeting, the whole proceeding was webcast and posted on the Company's website in the same evening.

The poll results of the General Meeting were posted on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange on the same day after the General Meeting.

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).

Enquiries from Shareholders

The Company has a Shareholders' Communication Policy (available on the website of the Company (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 94 to 95) of this Annual Report on other means of communication with shareholders.

Constitutional Document

The Company's Articles of Association (in both English and Chinese) is available on both the websites of the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2015, there was no change to the Articles of Association.

For and on behalf of the Board

Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 11 March 2016