

AUDIT & RISK COMMITTEE REPORT

As at the date of this Report, the Audit & Risk Committee of the Company (referred to as the “Committee” in this Report) consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company. None of the Committee members was (within two years before his/her appointment as a Committee member) or is a partner or former partner of KPMG, the Company’s external auditor. Details of the Committee’s membership and their attendance records during 2023 are set out on pages 116 to 117 of this Annual Report.

The Finance Director (the “FD”), the Legal and Governance Director (the “L&GD”) and the Head of Internal Audit (the “Head of IA”), or their respective delegates, and representatives of the external auditor are required to attend all meetings of the Committee. The Committee meets at least once every quarter and the Chairman of the Committee or any two members of the Committee or the external auditor or the FD may request additional meetings if they consider necessary.

TERMS OF REFERENCE OF THE COMMITTEE

The Terms of Reference of the Committee (the “ToR”) is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

DUTIES OF THE COMMITTEE

Under the ToR, the duties of the Committee primarily comprise the following:

- Overseeing the relationship with the Company’s external auditor, including making recommendations to the Board on the appointment of and any change to the Company’s external auditor and communicating with the external auditor on financial matters of the Company;
- Reviewing the financial information of the Company, including monitoring the integrity of financial statements;
- Developing and implementing a policy on the engagement of the external auditor to supply non-audit services;

- Overseeing the Company’s financial reporting system and internal control procedures, including overseeing the adequacy of the resources and competence of the Company’s accounting and financial reporting functions;
- Overseeing the Company’s Internal Audit function, including liaison with the Head of IA, approval of the annual internal audit plan of the Company and receiving periodic reports from the Head of IA;
- Reviewing the Company’s enterprise risk management (“ERM”) framework and the guidelines, policies and procedures for risk assessment and risk management;
- Receiving reports on the Company’s enterprise risks and key emerging risks; and
- Reviewing the effectiveness of the ERM function (including staffing levels and qualifications), the Company’s “Three Lines of Defence” (“3LoD”) assurance framework and crisis management arrangements.

More details on the duties of the Committee are set out in the ToR and further information can be found in the “Risk Management and Internal Control Systems” section of the Corporate Governance Report on pages 120 to 125 of this Annual Report.

For more details of the features of the ERM system and processes, the significant risks being managed and the process used to review the effectiveness of the ERM system, please refer to the “Risk Management” section on pages 133 to 137 of this Annual Report.

Reporting to the Board

The Chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom or concerns raised by Committee members in a report to the Board after each Committee meeting.

The minutes of Committee meetings are prepared by the secretary of the meetings with details of the matters considered by Committee members and decisions reached, including any concerns raised by Committee members, dissenting views expressed and suggestions for enhancing the governance and internal control systems of the Company. The draft minutes are circulated to

Committee members for comment after each meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that Committee members may have made. Minutes of Committee meetings are open for inspection by Committee members at the Company's registered office.

In advance of the first regular Committee meeting each year, the secretary of the meetings pre-agrees key agenda items for the year with the Chairman of the Committee who makes a final determination on the agenda for the Committee meetings.

WORK PERFORMED BY THE COMMITTEE IN 2023

In 2023, the Committee held four regular meetings. Representatives of the external auditor, the FD, the L&GD and the Head of IA attended all four regular meetings to report and answer questions about their work. In addition, relevant Members of the Executive Directorate were invited to join certain presentations to the Committee. During the year, the Committee also held private sessions with the external auditors and the Head of IA, without the presence of Management representatives.

The Committee devoted its attention to the review of the Company's annual and interim results announcements/ financial statements at the February and August 2023 meetings respectively, while maintaining close oversight of the Company's internal controls through receiving reports from the ERM, second line of defence ("2LoD") and internal audit teams at each of the regular meetings. In addition to the four regular meetings, the Committee endorsed the submission of a paper relating to certain tax issues to the Board and approved the engagement of KPMG for providing non-audit services to an overseas subsidiary of the Company, by way of circulation during the year.

Over the course of 2023, the Company has continued to implement its strengthened 2LoD through the independent Assurance Management Department within the Legal and Governance function. The Department is complemented by technical, engineering, safety and commercial Centres of Excellence. 2LoD assurance activities now span across all Business Units of the Company, including Capital Works, Hong Kong Transport

Services, Hong Kong Property, Mainland China and Macao, and International Businesses units. The Committee received a presentation on the 3LoD model and was satisfied with the designated roles and responsibilities among the 3LoD.

Other major work performed by the Committee in 2023 included:

Financial

- Reviewed the draft 2022 Annual Report, Annual Results Announcement and Financial Statements, 2023 Interim Report, Interim Results Announcement and Financial Statements, accounting matters, and relevant disclosure notes in the said Financial Statements and made recommendations on the same for the Board's approval;
- Received updates on the valuations of the Group's Hong Kong property assets and Mainland China investment properties;
- Received updates on the latest budget status of the Company's railway construction projects under entrustment by the HKSAR Government and updates on the detailed planning for the Company's new railway projects; and
- Received a preview of the 2023 interim and annual accounting, financial reporting issues and tax matters;

Internal Audit and Internal Control

- Reviewed a report on the evaluation of the effectiveness of the Internal Audit Department for 2022;
- Received the results of the Quality Assurance Review of the Company's internal audit function;
- Reviewed the continuing connected transactions for 2022;
- Reviewed Internal Audit Department's Quarterly Reports;
- Received presentations by the Mainland China Business Director and the Property and International Business Director on specific matters concerning certain Mainland/overseas subsidiaries;
- Approved updates to the Internal Audit Charter; and
- Approved the 2024 Internal Audit Plan;

External Auditor

- Received KPMG's reports on the salient features of the 2022 Annual Financial Statements and 2023 Interim Financial Statements respectively;
- Considered KPMG's independence and other relevant factors when approving the appointment of KPMG in providing non-audit services; and noted KPMG's confirmation of independence in its audit report in respect of the 2022 Annual Financial Statements and 2023 Interim Financial Statements respectively;
- Approved KPMG's fee proposal for the 2023 annual audit and the 2024 interim review, as well as other audit related and tax services; and
- Reviewed KPMG's audit plan for the year ending 31 December 2023;

Governance

- Reviewed the report on compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements in 2022, and outstanding litigation/potential litigation;
- Endorsed the Audit & Risk Committee Report and Risk Management related disclosures for the 2022 Annual Report; and
- Reviewed summaries of key issues reported to the Audit/Risk/Governance Committees of various subsidiaries of the Company;

Risk Management and Assurance

- Reviewed the Risk Management and Internal Control Systems effectiveness paper for 2022 for submission to the Board;
- Reviewed ERM's 2022 Annual Report, 2023 Half Yearly Report and Quarterly Reports;
- Received 2LoD Assurance Reports quarterly;
- Received a report on an external review of the Company's ERM framework and recommendations for how to enhance the framework going forward;
- Received a presentation on the intent and different roles and responsibilities within the Company's 3LoD model; and
- Received an annual update on the Company's insurance policies.

RE-APPOINTMENT OF EXTERNAL AUDITOR

The Committee was satisfied with KPMG's work, its independence and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's external auditor for 2024 for approval by the Company's shareholders at the 2024 Annual General Meeting.

Dr Carlson Tong
Audit & Risk Committee Chairman
Hong Kong, 7 March 2024

This Audit & Risk Committee Report has been reviewed and endorsed by the Committee.