

MTR Corporation Limited

Audit Committee – Terms of Reference

1. **Constitution**

The Board of MTR Corporation Limited (the “Company”) has resolved to establish a committee of the Board known as the Audit Committee (the “Committee”).

2. **Membership**

- 2.1 The members of the Committee shall be appointed by the Board and shall consist of at least four non-executive directors of the Company, a majority of whom shall be independent non-executive directors of the Company.
- 2.2 At least one of the Committee members shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).
- 2.3 The Chairman of the Committee must be an independent non-executive director and shall be appointed by the Board.
- 2.4 A former partner, principal, shareholder, or professional employee of the Company’s existing external auditor is prohibited from acting as a Committee member for a period of 2 years as calculated under the Listing Rules and applicable auditor independence rules.

3. **Attendance at meetings**

- 3.1 Subject to Clause 3.4, if requested by the Committee, the Finance Director, the Head of Internal Audit, the Company Secretary and representative(s) of the external auditor of the Company shall attend meetings of the Committee.
- 3.2 At the discretion of the Committee, others (including other members of the Board, other members of the Executive Directorate, the internal auditor(s) and other managers) might be invited to attend meetings or parts of meetings.
- 3.3 The Company Secretary or his/her designate shall be the Secretary of the Committee.
- 3.4 At least once a year the Committee shall meet with the external auditor without any executive member of the Board in attendance.

4. Quorum

- 4.1 The quorum necessary for the transaction of the business of the Committee shall be two members (including alternate member(s) that may be appointed pursuant to Clause 4.2) of the Committee. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 4.2 Subject to Clause 2, if a regular member is unable to act due to absence, illness or any other cause, the Chairman of the Committee may appoint another non-executive director of the Company (i.e. other than those already a member of the Committee) to serve as an alternate member.

5. Frequency of meetings

- 5.1 Meetings shall be held as frequently as the Committee considers appropriate: it will normally meet four times a year. The external auditor or the Finance Director may request a meeting if they consider that one is necessary.
- 5.2 The external auditor and the Finance Director may have access to the Chairman or any other member of the Committee as required in relation to any matter falling within the remit of the Committee.

6. Notice of Meetings

Meetings shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee. An agenda and accompanying Committee papers shall be circulated to all members (including alternate member(s) that may be appointed pursuant to Clause 4.2 above) in a timely manner and at least 3 days before the intended date of a Committee meeting insofar as it is practicable. Such papers and related materials shall be in a form and quality as will enable the Committee to make an informed decision on the matters placed before it.

7. Authority

- 7.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. Its work is advisory to the Board. It is authorised to seek any information it requires from any employee and all employees are required to co-operate with any request made by the Committee.
- 7.2 The Committee will not be responsible for supervising the performance of executives (nor permitted to do so) and will not be required to become involved in day-to-day operations, management functions or decision-making.

7.3 The Committee is authorised to obtain outside legal or other independent professional advice if it considers this necessary, after consultation with the Chairman of the Board, and to secure the attendance of external professional advisers at its meetings if it considers this necessary.

8. Duties

8.1 The duties of the Committee shall be:-

Relationship with the Company's external auditor

- (a) to be primarily responsible for:
 - (i) making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
 - (ii) approving the remuneration and terms of engagement of the external auditor; and
 - (iii) any questions of resignation or dismissal of the external auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee must pre-approve, and adopt appropriate procedures to pre-approve, all audit services to be provided by the external auditor and discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences. The Committee should keep under review the cost-effectiveness of the audit. The Committee should ensure that proper arrangements are made where more than one audit firm is involved;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The Committee must review and pre-approve, or adopt appropriate procedures to pre-approve, any non-audit services for complying with relevant legal requirements and seek to balance the maintenance of objectivity with value for money (where a substantial volume of such services is supplied). For this purpose, "external auditor" shall include any entity that is under common control, ownership or management with the external auditor or any entity that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude as part of the external auditor nationally or internationally. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

- (d) to obtain from the external auditor in connection with any audit a timely report relating to the Company's annual audited financial statements describing all critical accounting policies and practices used, all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor, and any material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences;
- (e) to discuss with management the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner and consider whether there should be a regular rotation of the external auditor itself;
- (f) to act as the key representative body for overseeing the Company's relations with the external auditor;

Review of financial information of the Company

- (g) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, together with any accompanying discussion papers to shareholders, the preliminary announcement of results and any other announcement regarding the Company's results or other financial information to be made public (together, the "Financial Documents"), and to review significant financial reporting judgments contained in the Financial Documents. In this regard, in reviewing the Financial Documents before submission to the Board, the Committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (h) with regard to (g) above:-
 - (i) Committee members must liaise with the Board and the Executive Directorate, and the Committee must meet, at least twice a year, with the Company's internal and external auditors; and

- (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the Financial Documents and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer, internal auditor or external auditor;
- (i) to discuss problems and reservations arising from the audit, and any matters the auditor(s) may wish to discuss (in the absence, where requested by the Committee, of members of the Board who are executive directors and any other person who is not a member of the Committee);

Oversight of the Company's financial reporting system and internal control procedures

- (j) to review, at least annually, the effectiveness of the Company's financial controls and internal control systems (including controls over significant trading and credit risks (such as derivatives)) and to report to the Board that such a review has been carried out;
- (k) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including, in particular, an annual review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- (l) to receive, at such intervals as the Committee may determine, general details of audits carried out by the internal audit function and, where requested by the Committee, consider in detail the report, including the recommendations of any particular such audit;
- (m) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (n) to review and approve the internal auditors' annual internal audit plan which includes audits on the efficiency and effectiveness of chosen activities or operations of the Company;
- (o) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (p) to review:
 - (i) periodic reports from the internal auditors outlining the work carried out in that period and highlighting any major issues encountered to the Board; and

- (ii) the follow-up of major action plans recommended by the internal auditors to ensure that, where a control weakness exists, agreed management action is being taken in a timely fashion, and put forward recommendations to the Board where appropriate;
- (q) to review the financial and accounting policies and practices of the Company and its subsidiaries;
- (r) to review any significant transactions which are not in the ordinary course of business;
- (s) to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (t) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (u) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (v) to report to the Board on the matters set out in this paragraph; and
- (w) to consider other topics, as defined by the Board.

8.2 The Committee will take full account of the Listing Rules.

8.3 The Chairman of the Committee shall attend the annual general meeting of the Company to answer shareholders' questions relating to the Committee.

9. Reporting procedures

9.1 The members of the Committee shall cause minutes to be made of all resolutions and proceedings of the Committee including the names of all those present and in attendance at meetings of the Committee. Minutes of Committee meetings shall record in sufficient detail the matters considered by the Committee members and decisions reached, including any concerns raised by the Committee members and dissenting views expressed.

9.2 Draft and final versions of minutes of Committee meetings shall be circulated by the Secretary of the Committee to all members of the Committee for their comments and record respectively, in both cases within a reasonable time after the Committee meeting is held. Such minutes shall also be made available, if requested, to other members of the Board.

9.3 Except where this would violate legal or regulatory requirements, the Committee shall promptly report back to the Board all decisions and recommendations.

*** END ***

This document is in English and Chinese. In case of any inconsistency, the English version shall prevail.