

## Corporate governance

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. In recognition of our achievements, MTR received the Diamond Award in the public sector category for Best Corporate Governance Disclosure from the Hong Kong Society of Accountants in 2000.

The overall management of the Company's business is the responsibility of the Board of Directors. The Board, however, delegates day-to-day management to the Executive Directorate, and focuses its attention on matters affecting the Company's finances and shareholders. These include financial statements, dividend policy, changes in accounting policy, the annual operating budget, certain material contracts, major financings and investments, risk management strategy, treasury policies and fare structures.

The Company takes care to ensure the Board is in a position to exercise its powers in an informed manner. The Board meets regularly and its members receive information between meetings about business developments. All Board members have full and timely access to the relevant information and may take independent professional advice if necessary.

As an integral part of good corporate governance a number of committees have been established. These committees comprise

non-executive directors who have been invited to serve as members. Their independent and objective views on various aspects of how MTR is governed provide proper control and ensure that we continue to achieve the high standards expected of a major listed company.

### Audit committee

The Audit Committee meets regularly to review the completeness, accuracy and fairness of the Company's financial statements. They consider the nature and scope of internal and external audit reviews. They also assess the effectiveness of the systems of internal control the Company has established to allow the Board to monitor the Group's overall financial position and to protect its assets.

The Audit Committee Chairman prepares an annual report to the Board covering its activities for the year and highlighting any significant issues. The Audit Committee in 2001 met four times and comprised three non-executive Directors.

### Remuneration committee

The Remuneration Committee meets regularly to consider human resources issues, including the terms and conditions of employment, remuneration and retirement benefits of the Chairman and Chief Executive and members of the Executive Directorate.

The Remuneration Committee in 2001 consisted of three members who were all non-executive Directors.

### Nominations committee

The Nominations Committee carries out the process of recommending and nominating candidates to fill vacancies on the Board.

The Nominations Committee during the year comprised three members, all of whom were non-executive Directors.

### Internal audit

The Internal Audit Department plays a major role in support of and in collaboration with the Company's management, in monitoring the internal governance of the Company.

The department has unrestricted access to information that allows it to review all aspects of the Company's activities and internal controls. On a regular basis, it conducts comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries. As the need arises, it also conducts ad-hoc reviews or investigations. The Internal Auditor reports directly to the Chairman of the Board and has direct access to the Audit Committee.

### Code of best practice

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong. The only exception is that non-executive Directors of the Company are not appointed for a specific term. Apart from those Directors appointed by the Chief Executive of Hong Kong SAR under the MTR Ordinance, other Directors must retire by rotation and re-election at the annual general meetings, in accordance with the Company's Articles of Association.

### Ethical culture

MTR has sought to bring sound corporate governance into every aspect of its operations at all levels of the organisation. To this end, the Board has approved a Code of Conduct to be followed by all staff in dealing with colleagues, customers, clients, suppliers, contractors and consultants. The code is designed to create an ingrained set of values that provide a common understanding of right and wrong in business dealings. It also outlines ways of resolving ethical problems that arise in the workplace. We hope that through this code, the Company can continue to build on the high standards it has already achieved.