

AUDIT & RISK COMMITTEE REPORT

As mentioned in the Annual Report last year, the Board restructured the Company's Board Committees in early 2022, with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the new Corporate Strategy. As a result of that restructuring, the Audit Committee, with effect from 1 February 2022, took up certain duties of the former Risk Committee, including regularly reviewing the Company's enterprise risk management ("ERM") framework (one of the Company's key internal controls) and associated policies and procedures and assessing, on an annual basis, the effectiveness of the ERM function. The Audit Committee was therefore renamed as the Audit & Risk Committee (referred to as the "Committee" in this Report) on the same date.

During 2022, Dr Eddy Fong Ching retired as a Member of the Board of the Company after the conclusion of the Company's annual general meeting on 25 May and accordingly stepped down as the Chairman of the Committee after having served for seven years and gratitude should be given to Dr Fong for his contribution and leadership as the Committee Chairman. As at the date of this Report, the Committee consists of six Non-executive Directors, five of whom are Independent Non-executive Directors of the Company. None of the Committee members was 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 2022 are set out on pages 120 to 122 of this Annual Report.

The Finance Director (the "FD"), the Head of Internal Audit (the "Head of IA") and the Legal and Governance Director (the "L&GD"), 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"), last updated in February 2022, 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 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 124 to 129 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 138 to 142 of this Annual Report.

Reporting to the Board

The Chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom 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 2022

In 2022, 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 2022 meetings respectively, allowing more time to review and discuss the Company’s internal controls, internal audit, regular reports on ERM and the Second Line of Defence (“2LoD”) and other activities at the June and November 2022 regular meetings.

Over the course of 2022, the Company has continued to implement its strengthened 3LoD model through the independent Assurance Management Department, complemented by technical and engineering Centres of Excellence and a new Strategic Assurance Review Board which serves to coordinate and focus assurance activities, as well as to highlight any insights or concerns to relevant Executives. Although in the early implementation phase, the newly formed 2LoD has introduced and piloted the refreshed 3LoD model and framework within the Capital Works Business Unit and has expanded its roll out to Hong Kong Transport Services and other Business Units. While a substantial journey remains, the foundation for an effective 2LoD has been established.

Other major work performed by the Committee in 2022 included:

Financial

- Reviewed the draft 2021 Annual Report, Annual Results Announcement and Financial Statements and 2022 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;
- Received a preview of the 2022 interim and annual accounting and financial reporting issues; and
- Reviewed the accounting matters and disclosure notes in the financial statements in relation to a resignalling project;

Internal Audit and Internal Control

- Reviewed the Risk Management and Internal Control Systems effectiveness paper for 2021 for submission to the Board;
- Reviewed the report on the evaluation of the effectiveness of the Internal Audit Department for 2021;
- Reviewed the continuing connected transactions for 2021;
- Reviewed Internal Audit Department's Six-monthly Report and Quarterly Reports;
- Received an update on the status of an Internal Audit Report on a resignalling project; and
- Approved the 2023 Internal Audit Plan;

External Auditor

- Received KPMG's reports on the salient features of the 2021 Annual Financial Statements and 2022 Interim Financial Statements respectively;
- Considered KPMG's independence and other relevant factors when approving the appointment of KPMG in providing a non-audit service; and noted KPMG's confirmation of independence in its audit report in respect of the 2021 Annual Financial Statements and 2022 Interim Financial Statements respectively;
- Approved KPMG's fee proposal for the 2022 annual audit and the 2023 interim review, as well as other audit related and tax services; and
- Reviewed KPMG's audit plan for the year ending 31 December 2022;

Governance

- Reviewed the report on compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements in 2021, and outstanding litigation/potential litigation;
- Endorsed the Audit Committee Report, Risk Committee Report and Risk Management related disclosures for the 2021 Annual Report;
- Reviewed the governance of the Mainland China and Macau Businesses and International Business; and
- Reviewed summaries of key issues reported to the Audit/Risk/Governance Committee Minutes of various subsidiaries of the Company;

Risk Management and Assurance

- Received an introduction to the ERM Framework;
- Reviewed ERM's 2021 Annual Report, 2022 Half Yearly Report and a Quarterly Report;
- Received the roadmap of the 3LoD model and framework and regular updates on the 2LoD's progress, results and Key Performance Indicators (KPIs);
- Received an introduction to the Corporate Crisis Management Framework; and
- Received an insurance summary update.

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 2023 for approval by the Company's Shareholders at the 2023 Annual General Meeting.

Carlson Tong
Audit & Risk Committee Chairman
Hong Kong, 9 March 2023

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