

Audit Committee Report

The Audit Committee (the "Committee") consists of six non-executive Directors, five of whom are Independent Non-executive Directors ("INEDs").

Members of the Audit Committee

INEDs
Mr. T. Brian Stevenson ¹ (chairman)
Dr. Eddy Fong Ching ² (since 13 January 2015)
Mrs. Lucia Li Li Ka-lai (since 14 October 2014)
Professor Frederick Ma Si-hang
Mr. Alasdair George Morrison
Mr. Ng Leung-sing (up to 13 October 2014)

Non-executive Director
Commissioner for Transport (Mrs. Ingrid Yeung Ho Poi-yan)

Notes:

1. Mr. T. Brian Stevenson will not stand for re-election at the 2015 Annual General Meeting of the Company and will retire as an INED, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company with effect from the conclusion of the Company's 2015 Annual General Meeting to be held on 20 May 2015 (the "2015 AGM").
2. Dr. Eddy Fong Ching, an INED of the Company will, subject to his election by the shareholders at the 2015 AGM as a member of the Board, be appointed as the chairman of the Audit Committee of the Company with effect from the conclusion of the 2015 AGM.

None of the Committee Members is a partner or former partner of KPMG, the Company's external auditor. The Finance Director (the "FD"), the Head of Internal Audit (the "Head of IA") and representatives of the external auditor are expected to attend meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee meets regularly, and the external auditor or the FD may request a meeting if they consider it necessary.

Duties of Audit Committee

In December 2014, the Terms of Reference (available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange) of the Committee were amended, whereby the duty to review the effectiveness of the Company's risk management system was excluded from the Committee's scope of work given such duty is covered by the Company's Risk Committee established in August 2014.

Under its updated Terms of Reference, the duties of the Committee include the financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the external auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal control procedures.

The Committee discusses with the external auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services and

ensures that the external auditor's provision of non-audit services does not impair its independence or objectivity. The Committee is primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the Company's external auditor, and approving the remuneration and terms of such engagement.

With respect to the financial information of the Company, the Committee monitors the integrity of financial statements, interim and annual reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate, and the chairman of the Committee further meets on an ad hoc basis with the Head of IA, representatives of the external auditor, and Management, as and when required. Apart from considering issues arising from audits, the Committee discusses any matters that the Head of IA or external auditor may wish to raise, either privately or together with Members of the Executive Directorate and any other person.

The Committee reviews, at least annually, the effectiveness of the Company's financial controls and internal control systems and reports to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. The Committee's review also covers its role in overseeing the Management's 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.

The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of IA and the follow-up of major action plans recommended, and puts forward recommendations to the Board, where appropriate. The Committee, ahead of the upgraded Corporate Governance Code provisions of the Listing Rules which will become effective on 1 January 2016, has, for some time, reviewed the annual assessment conducted by the Head of IA on the adequacy of resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget. Please refer to the "Internal Controls" section of the Corporate Governance Report on pages 115 to 118 of this Annual Report.

During 2014 and in addition to the abovementioned duties, the Committee had also reviewed the financial impact on the Company's 2014 Interim Accounts in light of the development of the Express Rail Link project, and had discussed the audit related areas in Second Report by the Independent Board Committee on the Express Rail Link project ("Second IBC Report").

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee meeting.

The minutes of the Audit Committee meetings are prepared by the secretary of the meetings with details of the matters

considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members and dissenting views expressed. The draft minutes are circulated to Committee Members for comments within a reasonable time after the meeting. The Committee formally adopts the draft minutes at the next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes. Minutes of the Committee meetings are open for inspection by Committee Members at the Company's registered office.

In January 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 regular Committee meetings. A total of four meetings have been scheduled to be held in 2015.

Work Performed by Audit Committee in 2014

In 2014, the Committee held four meetings. The attendance record of each Committee Member is shown on page 109 of this Annual Report under the "Board Meetings" section of the Corporate Governance Report.

Among the four meetings, the Committee had two separate meetings for reviewing the annual results for the year ended 31 December 2013. The first meeting concentrated on business operations, internal control and internal audit related items, as well as outstanding litigation, compliance and enterprise risk management issues, while the second meeting focused on accounting and financial reporting matters.

The major work performed by the Committee in 2014 included:

Financial

- Review of and recommendation for the Board's approval of the draft 2013 Annual Report and Accounts and 2014 Interim Report and Accounts;
- Review of Management Letter, tax issues, compliance and salient features of 2013 Annual Accounts and 2014 Interim Accounts presented by KPMG;
- Review of KPMG's Audit Plan and Preview of 2014 annual accounting and financial reporting issues; and
- Review of the financial impact on 2014 Interim Accounts in light of the development of the Express Rail Link project.

Auditing / Internal Controls

- Approval of the 2015 Internal Audit Plan;
- Review of two Half-yearly Reports prepared by the Internal Audit Department;
- Review of the Report on the Company's Internal Control system for the year ended 31 December 2013;
- Review of two Half-yearly Reports on Whistle-blowing prepared by the Internal Audit Department for July to December 2013 and for January to June 2014;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2013;

- Pre-approval of audit and non-audit services provided by KPMG;
- Review of KPMG's fees proposal for the 2014 audit; and
- Holding of private sessions with Head of IA and representatives of KPMG without the presence of Management.

Operations Review and Others

- Review of outstanding litigation, and compliance with statutes and regulations, Operating Agreement and Rail Merger Agreements;
- Review of the Enterprise Risk Management Annual Report for 2013;
- Review of an Update on the Management Governance Framework which is set out on page 118 of this Annual Report under the Corporate Governance Report;
- Confirmation of the financial figures for the 2013 payout under "2008 Variable Incentive Scheme";
- Review of the Audit/Governance Committees Minutes of MTR's wholly owned subsidiaries;
- Review of operations' IT security systems;
- Discussion of the Second IBC Report relating to internal audit, project quality assurance and the Audit Committee;
- Receipt of updates on "Project Cost and Claims Position" relating to the five new lines; and
- Receipt of report on "Claims Management and Dispute Avoidance" for the five new lines.

Representatives of the external auditor, the FD and the Head of IA attended all four meetings for reporting and answering questions about their work. Further to that and by invitation, the then Acting Chief Executive Officer (formerly Deputy Chief Executive Officer), the Operations Director, the Commercial Director, the Projects Director, the Property Director and the Legal Director & Secretary (or their representatives) had respectively provided an overview of the Company's business development and expansion outside of Hong Kong, railway operations, non-fare businesses, new railway projects, property business as well as outstanding litigation, compliance and enterprise risk management matters to the Members at the meetings.

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 2015 for Shareholders' approval at the 2015 Annual General Meeting.

T. Brian Stevenson
Audit Committee Chairman
Hong Kong, 16 March 2015