

# Audit Committee Report

As at the date of this Report, the Audit Committee of the Company (referred to as the “Committee” in this Report) consists of five Non-executive Directors, four of whom are Independent Non-executive Directors of the Company (“INEDs”). Details of the Committee’s membership and Members’ attendance records during 2016 are set out on pages 131 to 132 of this Annual Report. 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 attend all 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. The Committee, upon request, also considers and, if thinks fit, approves the appointment of the Company’s external auditor for undertaking non-audit work.

## Duties of the Committee

Under the Committee’s Terms of Reference (available on the respective websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and the Stock Exchange), the duties of the Committee primarily comprise the following aspects:

### Oversight of the relationship with the Company’s external auditor

- Discussing with the external auditor the nature and scope of audit and reporting obligations before the audit commences;
- Pre-approving any non-audit services and ensuring that the external auditor’s provision of non-audit services does not impair its independence or objectivity; and
- Recommending to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of such engagement.

### Review of the financial information of the Company

- Monitoring 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;
- Liaising with the Board and the Executive Directorate in dealing with the Company’s financial information. 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; and
- Discussing 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.

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

- Assisting the Board in overseeing the Company’s financial controls and internal control systems on an ongoing basis through reviewing, at least annually, the effectiveness of the Company’s financial controls and internal control systems; with a report 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;
- Overseeing Management’s review of the adequacy of the resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget;
- Reviewing and approving the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company;
- Reviewing periodic reports from the Head of IA and the follow-up of major action plans recommended, and putting forward recommendations to the Board, where appropriate; and

## Audit Committee Report

- Reviewing the annual assessment conducted by the Head of IA on the adequacy of the resources, qualifications and experience of staff of the Company's internal audit function, and its training programmes and budget.

Further details of the above are set out in the "Risk Management and Internal Control Systems" section of the Corporate Governance Report on pages 142 to 145 of this Annual Report.

### Reporting to the Board

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by 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 the Committee Members and decisions reached, including any concerns raised by the Committee Members, dissenting views expressed, and suggestions for enhancing the governance and internal control aspects of the Company. The draft minutes are circulated to Committee Members for comments within a reasonable time after each 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 on a quarterly basis in February, May, August and November 2017.

## Work Performed by the Committee in 2016

In 2016, the Committee held four meetings. Representatives of the external auditor, the FD and the Head of IA attended all four meetings for reporting and answering questions about their work. The Committee devoted its attention to the review of the Company's annual and interim results announcement/accounts at the February and August meetings respectively, allowing more time to review and discuss the Company's internal control, internal audit and other activities at the May and November meetings.

At the February and August meetings, the Committee invited the Managing Director – Operations and Mainland Business, the Operations Director, the Commercial Director, the Projects Director, the Property Director, and the Legal and European Business Director (or their representatives) to join the financial presentation by the FD.

The major work performed by the Committee in 2016 included:

### Financial

- Review of the draft 2015 Annual Report and Accounts and 2016 Interim Report and Accounts, in particular, the financial impact of the Express Rail Link and the Company's other new railway projects in progress, and the relevant disclosure notes in the said Accounts and recommendation of the same for the Board's approval;
- Review of and recommendation for presentation to the Remuneration Committee of the paper headed "2015 payout under "2008 Variable Incentive Scheme" - confirmation of the financial figures"; and
- Preview of 2016 interim and annual accounting and financial reporting issues.

## Internal Audit

- Review of Internal Audit Department's Reports;
- Review of Risk Management and Internal Control Systems Effectiveness for 2015 (focused on the internal control system, as the risk management system effectiveness was separately reviewed by the Risk Committee of the Company);
- Review of Whistle-blowing Reports;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2015;
- Review of Internal Audit Charter Update;
- Review of past and future audit approaches on the Company's railway projects;
- Review of Internal Audit Department's report on IT audits performed;
- Review of internal audit assessment on Mainland China and International Business;
- Approval of the 2017 Internal Audit Plan; and
- Holding of private sessions with the Head of IA without the presence of Management.

## External Auditor

- Review of KPMG's Audit Plan;
- Review of summary of KPMG services to MTR and fees received;
- Pre-approval of audit and non-audit services provided by KPMG;
- Review of salient features of 2015 Annual Accounts and 2016 Interim Accounts prepared by KPMG;
- Discussion of the proposed format of the 2016 Auditor's Report (under the new requirements);

- Review of KPMG's fee proposal for the 2016 audit; and
- Holding of private sessions with representatives of KPMG without the presence of Management.

## Others

- Review of the 2015 report on the outstanding litigation/potential litigation, compliance with statutes and regulations, Operating Agreement and Rail Merger Related Agreements, and implementation of Corporate Governance Framework in the Company's subsidiaries/associates;
- Review of a strategy update by the Treasury Department; and
- Review of the Audit/Risk/Governance Committee Minutes of MTR's subsidiaries.

## 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 2017 for approval by the Company's Shareholders at the 2017 Annual General Meeting.

Dr Eddy Fong Ching  
Audit Committee Chairman  
Hong Kong, 7 March 2017

*The Audit Committee Report has been reviewed and endorsed by the Committee.*