

**KOWLOON-CANTON RAILWAY CORPORATION**

**CORPORATE GOVERNANCE MANUAL**

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**10<sup>TH</sup> EDITION**

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## PREFACE

The Organisation for Economic Cooperation and Development (OECD) defines corporate governance as *“the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.”*

This is the tenth edition of the corporate governance manual, the first edition being issued in 2000. This manual outlines the main legislation under which the Corporation operates; the key policies adopted; the roles, responsibilities and procedures of the Managing Board and its relationship with the executive management; and the Code of Ethics and Conduct that all employees should follow.

Company Secretariat  
March 2017

## **SECTION 1: CORPORATION AND MANAGING BOARD – ROLE OF THE CHAIRMAN, STANDING ORDERS, RULES FOR CONDUCT OF CORPORATION BUSINESS AND COMMITTEES OF THE MANAGING BOARD**

### **THE CORPORATION**

101 The Kowloon-Canton Railway Corporation (KCRC) is a public corporation established by statute and is wholly owned by the Government of the Hong Kong Special Administrative Region. It is charged with the task of operating and developing domestic, cross-boundary and intercity railway services in a prudent commercial manner. However, under the provisions of the Rail Merger Ordinance passed by Hong Kong's Legislative Council in June 2007, on 2 December 2007 the MTR Corporation assumed day-to-day responsibility for operating KCRC's railway assets by way of the grant of a service concession for an initial period of 50 years, which is extendable. KCRC retains ownership of the railway assets covered in the service concession agreement and receives annual payments from the MTR Corporation comprising a fixed sum of \$750 million and a variable sum calculated as a sliding scale proportion of annual gross revenue above \$2.5 billion generated by the MTR Corporation from the KCRC railway assets. Should the MTR Corporation fail to observe the terms of the agreement, there is provision for KCRC to take back and operate its assets.

102 KCRC retains a small management team responsible for management and financing of its debts, and for investing any available funds. KCRC is also responsible for monitoring the MTR Corporation's compliance with its various obligations under the merger-related agreements, including revenue sharing, annual payments, outsourcing to MTR Corporation of specified KCRC day-to-day activities, and for managing its remaining subsidiaries.

103 – 110 (not used)

### **MANAGING BOARD**

111 The Kowloon-Canton Railway Ordinance (Chapter 372) sets out the powers of the Corporation.

112 The Corporation's governing body is its Managing Board. The Board may comprise a Chairman, a Chief Executive Officer and not less than four nor more than eight other Members. All are appointed by the Chief Executive of the Hong Kong Special Administrative Region with the exception of the Chief Executive Officer, who is appointed by the Corporation with the prior approval of the Chief Executive of the Hong Kong Special Administrative Region. The Chairman and the Chief Executive Officer perform the functions assigned to them by the Ordinance, the Managing Board and its Committees. Under the provisions of the Rail Merger Ordinance, the position of the Chief Executive Officer may be left vacant.

113 The Board currently comprises six Members, namely, those individuals occupying the positions in the Government of the HKSAR of Secretary for Financial Services and the Treasury (Chairman), Permanent Secretary for Transport and Housing, Deputy Secretary for Financial Services and the Treasury (Treasury) 1, Director of Accounting Services, Government Property Administrator, and Deputy Secretary for Transport and Housing (Transport) 4. The position of the Chief Executive Officer has been left vacant, with responsibility for the day-to-day management of the Corporation being taken up by the Chief Officer.

114 – 120 (not used)

### **ROLE OF THE CHAIRMAN**

121 The Chairman is responsible for the conduct of the Business of the Managing Board.

122 The Chairman must ensure that the content and order of the Managing Board's agenda are correct, and that Members have the relevant Board papers in good time. In consultation with Members, he is required to settle the frequency, location and duration of meetings.

123 The Chairman shall preside at all meetings of the Managing Board. If he is unable to attend a meeting, and in the absence of any Member nominated and appointed to act as Chairman in his place, the relevant provisions of the Standing Orders of the Managing Board shall apply.

124 The Chairman's point of contact with Management will be through the Chief Officer for all corporate matters and the Company Secretary.

125 Other than where the matter is of a personal nature, which will be referred direct to the Chairman, correspondence addressed to the Chairman will be dealt with in the first instance by the Company Secretary, who will refer matters of a substantive nature to the Chief Officer for his decision. Where such matters might result in questions in the Legislative Council or by the media, the Chairman shall be kept informed.

126 – 130 (not used)

## **STANDING ORDERS OF THE MANAGING BOARD**

131 The Managing Board's Standing Orders, which set out how the Board conducts its business, are reproduced as paragraphs 132 to 139 below.

132 The Board may appoint a Secretary and shall cause minutes to be kept of all resolutions and proceedings of the Board at each meeting. The minutes of each meeting shall include a record of the Members, Corporate staff and any other parties who are present.

133 The Chairman, in consultation with Members, will decide the date, location and duration of meetings. When possible, formal notice will be given at the end of the minutes of each meeting of the intended date, time and venue for the next meeting.

134 Any paper for consideration of the Board should be forwarded to reach Members at least 7 days prior to the relevant Board meeting. With the Chairman's approval, urgent or sensitive papers may be distributed at any time prior to the meeting, or tabled at the meeting.

135 In addition, the Chairman is empowered to call extraordinary meetings of the Board at any time, and any 2 Members of the Board may together call a meeting by requisition to the Secretary in writing specifying the business of the meeting.

136 At least 48 hours' notice of any extraordinary meeting shall be given in writing to each Member. The notice shall specify the place, date and time of the meeting and the business to be conducted.

137 The Chairman may also, without calling a meeting, circulate in writing any resolution to all Members of the Board, and such resolution shall be duly passed if signed by not less than a simple majority of the Members of the Corporation for the time being.

138 In the absence of the Chairman of the Board and of any Member nominated and appointed to act as Chairman in his place, the Board may appoint a Member to chair the meeting or to respond to problems on behalf of the Board.

139 In the event of any inconclusive ballot of Members on any issue, the Chairman, in addition to his personal vote, shall exercise a casting vote.

140 – 150 (not used)

## **RULES FOR CONDUCT OF CORPORATION BUSINESS**

151 The following matters will in all cases be referred to the Managing Board for its consideration and approval, together with any further items which the Board may from time to time decide –

- (a) Board General Standing Orders.
- (b) Rules for Conduct of Corporation Business.
- (c) By-laws (unless suspended under the Service Concession)
- (d) 3 Year Business Plans, including revenue, expenses and capital budgets for the ensuing year, annual manpower plan and pay review.
- (e) Annual Budget.
- (f) Annual Report and Audited Accounts.
- (g) Recommendations with respect to Dividend Payments.
- (h) Major Business Strategies.
- (i) Any proposed amendment to the merger transaction documents, and any interpretation arising from those documents that has the potential to carry significant adverse financial or legal implications for the Corporation.
- (j) Capital projects of any nature.
- (k) All contracts in excess of HK\$50 million, and variations to any contract with a cumulative value of \$50 million over the life of the contract. This rule does not apply to Treasury investment activities, which are subject to separate guidelines and policies.
- (l) All non-lowest conforming expenditure and all non-highest conforming revenue contracts in excess of HK\$20 million, and variations to any such contract with a cumulative value of \$20 million over the life of the contract.
- (m) All consultancy contracts in excess of HK\$10 million, and variations to any consultancy contract with a cumulative value of \$10 million over the life of the contract.
- (n) Appointment of the Chief Officer, including prior clearance with the Board of any terms and conditions providing for pension, gratuities, settlement and other financial benefits.
- (o) Borrowings other than those involving uncommitted facilities with maturities of one year or shorter.
- (p) Purchase and sale of all real property.
- (q) Formation, acquisition and disposal of companies.
- (r) Write off of fixed assets, the original cost of each of which exceeded \$50 million, and write off of items of capitalized expenses exceeding \$10 million each. This rule does not apply to Initial and Additional Concession Assets used or operated by MTRC under the Service Concession Agreement.
- (s) Any proposals for leasing or generating additional revenue in excess of \$50 million from the land or property held by the Corporation.

152 In addition, Management must report to the Board each month on significant developments, together with the operating and financial results, information on use of the Corporate Seal, letting of

major contracts, public complaints and any other matters which may be required by the Board from time to time.

153 All other authorities to carry out Corporation activities are delegated to the Chief Officer, who may delegate his authority further.

154 – 160 (not used)

## **COMMITTEES OF THE MANAGING BOARD**

161 Where a Committee of the Board is formed to handle a particular subject, a Chairman and a Secretary shall be appointed by the Board and minutes shall be kept in the same manner as for the Board itself. Furthermore, the decisions arising from the deliberations of any such Committee shall be referred to the full Board for ratification.

### **The Audit Committee**

162 The Managing Board has established an Audit Committee, with membership and terms of reference as set out below.

#### **1. Membership**

1.1 The Committee shall consist of three Members appointed by the Board from amongst the Board Members, other than the Board Chairman, none of whom may be a consultant to the Corporation.

1.2 The Chairman of the Committee shall be appointed by the Board. The Chairman of the Committee may appoint one of the Members of the Committee to act as the Chairman in his absence.

1.3 A quorum shall be two Members.

1.4 The Chairman of the Committee should have appropriate accounting and financial experience.

#### **2. Attendance at meetings**

2.1 The Chief Officer, the internal auditor and the external auditor shall normally attend meetings of the Committee, except in the case of 3.2

2.2 The Committee may invite any other officer or employee to attend as and when appropriate.

2.3 The Company Secretary or his nominee shall be the Secretary to the Committee.

#### **3. Frequency of meetings and reporting**

3.1 The Committee shall meet at least three times a year, and otherwise as required. The Chairman of the Committee shall decide the frequency and timing of meetings.

3.2 At least once a year the Committee shall hold an “in camera” session with each of the external auditor and internal auditor separately without management being present. The Committee at its own consideration, or at the request of the external auditor or internal auditor, may also hold additional “in camera” sessions at any time throughout the year as the Committee so decides.

3.3 The Committee shall be accountable to the Board and shall report on its business to the Board.

3.4 Minutes of Committee meetings shall be circulated promptly to all Members of the Committee and, once agreed, to all Members of the Board.

3.5 Notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed shall be forwarded to each member of the Committee prior to the date of the meeting in a timely manner.

#### **4. Authority and duties**

##### **Authority**

4.1 The Committee is authorised by the Board to –

- (a) investigate any activity within its terms of reference and shall have unrestricted access to books and records for this purpose;
- (b) seek any information that it requires from any employee and all employees shall be directed to cooperate with any request made by the Committee; and
- (c) obtain outside legal, accounting or other independent professional advice at the Corporation's expense and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

##### **Duties and responsibilities**

4.2 The duties and responsibilities of the Committee shall be to -

- (a) give to the Board such assurance as it may reasonably require regarding the reliability of financial information submitted to it and of financial statements issued by the Corporation;
- (b) make recommendations to the Board on the appointment, removal and remuneration of the external auditor;
- (c) oversee the process for selecting the external auditor and make appropriate recommendations through the Board to the Chief Executive of the HKSAR;
- (d) assess the independence and objectivity of the external auditor having regard to HK professional and regulatory requirements, including ensuring the rotation of key partners at appropriate intervals;
- (e) pre-approve/monitor (whichever is appropriate) the appointment of the external auditor to any of the Corporation's subsidiary companies and any additional services to be undertaken by the external auditor of such companies;
- (f) pre-approve all additional audit or non audit services to be undertaken by the external auditor, including associated fees;
- (g) ensure that the provision of additional audit or non-audit services does not impair the external auditor's independence or objectivity;
- (h) review, and challenge, where necessary, the actions and judgements of management in relation to the Annual Report and Accounts before submission to the Board, paying particular attention to -
  - critical accounting policies and practices, and any changes in them
  - decisions requiring a major element of judgement
  - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed



- the clarity of disclosures
  - significant adjustments resulting from the audit
  - the going concern assumption
  - compliance with accounting standards
  - compliance with stock exchange, and other regulatory and legal, requirements to the extent that they are applicable to the Corporation
- (i) discuss with the external auditor, at an early stage, the nature and scope of the audit, including, in particular, the nature of any significant unresolved accounting and auditing problems; the nature of any significant adjustments, reclassification or additional disclosures proposed by the external auditor which are significant or which may in the future become material; and the nature and impact of any material changes in accounting policies;
  - (j) review subsequently whether the external auditor has met the Audit Committee's expectations as regards the agreed plan, their handling of key accounting and audit judgements, and in responding to questions from the Audit Committee;
  - (k) review the external auditor's management letter and management's response, and approve the same;
  - (l) keep under general review the system of internal audit in operation within the Corporation and to receive periodically reports from the internal auditor;
  - (m) recommend to the Managing Board the appointment or dismissal of the internal auditor;
  - (n) approve the annual internal audit plan and ensure that the internal audit function is adequately resourced and has appropriate standing within the Corporation, and make recommendations to the Managing Board where necessary;
  - (o) review management's and the internal auditor's reports on the adequacy and effectiveness of systems of internal control, financial reporting and risk management, and make recommendations to the Managing Board where necessary;
  - (p) review the Corporation's statement on internal control systems prior to endorsement by the Board and to review the policies and processes for identifying and assessing business risks and the management of these risks by the Corporation, and make recommendations to the Managing Board where necessary; and
  - (q) give to the Board such other assurance as it may reasonably require regarding compliance by the Corporation, its subsidiaries and those of its associates for which it provides management services with all legal and other regulations to which they are subject.

## **5. Whistle blowing**

5.1 Establish and keep under review arrangements whereby employees of the Corporation can, in confidence, 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.

## **6. Other Matters**

6.1 The Committee shall -

- (a) review its TOR periodically and not less than once every three years, and make recommendations to the Board for changes where necessary;

- (b) ensure that the Committee's duties and activities during the year are adequately disclosed in the Annual Report; and
- (c) undertake on behalf of the Chairman or the Board such other related tasks as the Chairman or the Board may from time to time entrust to it.

163 – 170 (not used)

## **SUBMISSIONS TO THE MANAGING BOARD AND ITS COMMITTEES**

171 The Managing Board has consciously decided to limit its consideration to those key matters specified in the Rules for Conduct of Corporation Business. The Chief Officer is responsible for deciding what other matters should be submitted to the Managing Board or one of its Committees. Advice may be sought from the Company Secretary.

172 The Chief Officer has a duty to ensure that all submissions to the Managing Board and its Committees (except the Audit Committee) state the relevant issues and proposals succinctly and definitively. In the case of the Audit Committee, the Chief Officer will only be concerned with those parts of papers which reflect Management's responses to audit findings and recommendations, and not with the findings and recommendations of either the Internal Auditor or the External Auditor, which will not be subject to amendment or softening.

173 The Chief Officer is responsible for deciding the content of papers to be submitted to the Board. In addition, the Chief Officer will ensure that the Chairman is appropriately briefed on the content of papers. The Chairman has the responsibility to ensure that the content of papers submitted to the Managing Board accord with the policy previously laid down by the Managing Board, and where they do not, to bring this to the attention of the Chief Officer. In consultation with the Chairman, the Chief Officer will then be responsible for deciding whether any paper should be withdrawn from the agenda, whether the content of any paper should be amended to accord with the approved policy or whether the Managing Board's approval should be sought to amend the prevailing policy. Where the Chairman holds a different view from those expressed in a paper, Management will ensure that the Chairman's views and arguments are incorporated in the paper.

174 All papers relating to matters falling within the terms of reference of a Board Committee must be considered by that Committee before being submitted to the Board unless the Board or the Chairman declares otherwise.

175 The Chairman, and Members having cleared any board paper initiated by them with the Chairman, may submit papers to the Managing Board in accordance with paragraph 134.

176 - 200 (not used)

## **SECTION 2: ROLE OF THE CHIEF OFFICER**

### **ROLE OF THE CHIEF OFFICER**

201 The Chief Officer of the Corporation is responsible to the Board for the conduct of the day-to-day business of the Corporation and for implementing the policies and strategies decided by the Board. He is responsible to the Board for all aspects of the Corporation's performance.

202 Save for those matters reserved to the Managing Board under the Rules for Conduct of Corporation Business for its consideration and decision, the Managing Board has delegated its authority to the Chief Officer to make decisions in respect of all other matters arising from the business of the Corporation, and has authorised the Chief Officer to delegate further where he considers this necessary for efficiency and in the best interests of the Corporation.

203 The Chief Officer reports to the Board on matters falling under the Rules for Conduct of Corporation Business through the Chairman in accordance with the provisions set out in paragraph 173.

204 The Chief Officer is responsible for public relations and will be the spokesperson for the Corporation. The Chairman may be the spokesman on important matters, as decided by the Managing Board.

205 – 210 (not used)

### **ABSENCE OF THE CHIEF OFFICER**

211 To cover periods when he is absent the Chief Officer will either –

- (a) assign a Senior Manager to carry out overall coordination of the Corporation's day-to-day business; or
- (b) nominate a Senior Manager to the Board for appointment to act as Chief Officer until the incumbent returns to duty.

212 A Senior Manager, who is assigned in accordance with paragraph 211 (a), will, during the period of any such assignment, have the Chief Officer's delegated authority to approve or endorse any matters relating to the day to day business of the Corporation which require the Chief Officer's approval or endorsement, subject only to any restrictions specifically imposed when any such assignment is made.

213 A Senior Manager, who is nominated and appointed in accordance with paragraph 211 (b) above, will, during the period of any such nomination and appointment, have both the full authorities or powers of the Chief Officer to approve or endorse any matters relating to the conduct of the Corporation's day to day business which require the Chief Officer's approval or endorsement, subject only to any restrictions specifically imposed by the Board when any such appointment is made.

214 – 300 (not used)

## SECTION 3: CODE OF BUSINESS AND EMPLOYEE CONDUCT

### POLICY

301 It is universally accepted that stakeholders and the public generally now demand more accountability from organisations providing essential public services. This means having greater transparency in respect of both the corporate entity and the actions of individuals whose ethical behaviour is exposed to increasingly greater scrutiny. The Corporation and those employed by it are no exceptions.

302 It is incumbent upon the Corporation as matter of good corporate governance to promulgate appropriate requirements which will maintain an acceptable balance between transparency, on the one hand, and individuals' rights, particularly as to privacy, on the other.

303 – 310 (not used)

### CODE OF BUSINESS CONDUCT

311 The Corporation's Code of Business conduct is set out below.

**Standard of Conduct:** The KCRC conducts its operations with honesty, integrity and openness. It believes in fair competition, and respects the legitimate interests of those to whom it provides services and with whom it conducts business. The KCRC, its subsidiaries and its employees are required to comply with the laws of the HKSAR and of wherever else it conducts business.

**Corporate Governance:** The KCRC conducts its operations in accordance with internationally accepted principles of good corporate governance, and provides timely, regular and reliable information on its activities, structure, financial situation and performance to the Government as its sole shareholder.

**Access To information:** The KCRC recognises the need for the community to be well informed about the Corporation, the activities it undertakes and the processes and procedures that it adopts. It therefore provides access to information to the extent practicable in conformity with the principles laid down in the Hong Kong SAR Government's Code of Access to Information.

**Community Involvement:** The KCRC strives to be a good corporate citizen. It co-operates with the Government and other organisations in the promotion of community activities that support the Corporation's image as a good corporate citizen. The KCRC neither supports political parties nor contributes to the funds of groups whose activities are calculated to promote party interests.

**The Environment:** The KCRC is committed to making continuous improvements in the management of the environmental impact of its activities with the goal of developing a sustainable business.

**Employees:** The KCRC respects the rights and interests of its employees and is committed to supporting a working environment where there is mutual trust and respect, and where everyone feels responsible for the performance and reputation of the Corporation. It recruits, employs and promotes employees on the sole basis of their qualifications, experience and merit. The Corporation is committed to ensuring safe and healthy working conditions for all employees, and to working with employees to develop and enhance each individual's skills and capabilities. It respects the right of employees to freedom of association, and will maintain good communications with employees through appropriate information and consultation procedures. In return, all KCRC employees are expected to avoid personal activities and financial interests that could conflict with their responsibilities to the Corporation.

**Compliance:** Day-to-day responsibility is delegated to the senior management of the Corporation for implementing these principles. Compliance with the Code is subject to review by the Managing Board supported by the Audit Committee.

312 – 320 (not used)

## **CODE OF EMPLOYEE CONDUCT**

321 The KCRC values its good name. All employees are expected to perform their work in line with KCRC's objectives, policies and procedures. More particularly, all employees are expected to -

- (a) protect and promote the business integrity of KCRC;
- (b) work diligently towards achieving KCRC's business goals;
- (c) treat customers and colleagues with honesty, courtesy and respect;
- (d) work in a safe and healthy manner, and duly comply with the requirements set out in safety, security, environment or quality rules and procedures issued by KCRC;
- (e) adopt a responsible approach to attendance and punctuality; and
- (f) be suitably attired for the nature of their work and for the KCRC's image.

322 – 400 (not used)

## SECTION 4: CODE OF ETHICS FOR SENIOR OFFICERS

### POLICY

401 The Managing Board has approved a Code of Ethics (“the Code”), which must be followed for the purpose of promoting -

- (a) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) full, fair, accurate, timely and understandable disclosure in reports and documents, and in other public communications made by the Corporation that are within the Senior Officer’s responsibility;
- (c) compliance with applicable laws and governmental rules and regulations;
- (d) the prompt internal reporting of violations of the Code; and
- (e) accountability for adherence to the Code.

402 The Code applies to Senior Officers of the Corporation, who include the Corporation’s Chief Officer, the Senior Financial Officer and all persons performing similar functions. All Senior Officers are also reminded of their obligations as set out in Section 3 of this Manual as regards the Corporation’s Code of Business and Employee Conduct. The obligations under that code apply independently and are not a part of the Code of Ethics.

403 – 410 (not used)

### CODE OF ETHICS FOR SENIOR OFFICERS

411 The honesty, integrity and sound judgment of Senior Officers is fundamental to the reputation and success of the Corporation. While all employees are required to adhere to the Corporation’s policies and Code of Business and Employee Conduct, the professional and ethical conduct of Senior Officers is essential to the proper function and success of the Corporation.

#### General

412 To the best of their knowledge and ability, Senior Officers of the Corporation must -

- Act with honesty and integrity and avoid actual or apparent conflicts of interest in personal and professional relationships. Conflicts of interest arise when an individual, or a member of his or her immediate family, receives, or appears to receive, improper personal benefits as a result of his or her position in the Corporation. Actual or apparent conflicts of interest include, but are not limited to, the following examples -
  - (i) engaging in any personal business transaction involving the Corporation for profit or gain without first reporting the same to the Company Secretary, who will take appropriate action to determine whether a conflict exists;
  - (ii) being a consultant to, or a director, officer or employee of, a supplier or competitor of the Corporation;
  - (iii) receiving, directly or indirectly, improper personal benefits as a result of using Corporation property or obtaining services;
  - (iv) conducting Corporation business with a family member, or taking any business action that improperly benefits a family member; and
  - (v) accepting money, personal gifts, discounts, loans (other than loans from lending institutions at prevailing interest rates), or other special treatment or

gratuities from any supplier or competitor of the Corporation, save where permitted in accordance with KCRC's policies and Code of Business and Employee Conduct.

- Provide colleagues with, or cause to be provided, information that is full, fair, accurate, complete, objective, relevant, timely and understandable, for disclosure purposes in reports and documents that the Corporation files with or submits to any Hong Kong or other securities regulatory body or securities exchange or any other public communications.
- Comply, and take all reasonable actions to cause others to comply, with the applicable laws, rules and regulations of Hong Kong or other foreign state or country whose laws may apply to the Corporation in any particular circumstances.
- Act in good faith, with due care, competence and diligence, without misrepresenting, misstating, exaggerating, omitting or otherwise untruthfully, carelessly or wrongfully disclosing material facts or information pertaining to the Corporation or allowing independent judgment to be subordinated or biased.
- Respect the confidentiality of information acquired in the course of employment and not use such confidential information in an unethical or opportunistic manner, such as (a) taking for themselves personal opportunities related to the Corporation's business; (b) using the Corporation's property, information or position for personal gain; or (c) competing with the Corporation for business opportunities.
- Share knowledge among themselves and the Corporation's employees and maintain skills necessary and relevant to the Corporation's needs.
- Proactively promote ethical and honest behaviour within the Corporation.
- Ensure the responsible use of and control of all the Corporation's assets, resources and information for legitimate business purposes only.

413 All Senior Officers are expected to adhere to both the Corporation's policies and Code of Business and Employee Conduct and this Code of Ethics for Senior Officers at all times.

#### Record Keeping

414 The Corporation requires honest and accurate recording and reporting by all Senior Officers of information in order to make responsible business decisions. All of the Corporation's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Corporation's transactions and must conform both to applicable legal requirements and to the Corporation's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation.

#### Accurate and timely periodic reports

415 The Corporation is committed to providing full, fair, accurate, timely and understandable disclosure in periodic reports and documents that the Corporation files, or submits to, its shareholder or the applicable regulatory bodies and in other public communications. Specifically, the Senior Officers shall exercise their best endeavours to ensure that the Corporation -

- maintains accurate books and records that fully, fairly and accurately reflect the Corporation's financial information and reporting of transactions;
- ensure that the financial statements and other financial information included in periodic and other reports is prepared in accordance with generally accepted accounting principles and fairly presents in all material respects the financial condition, results of operations and cash flows of the Corporation;

- maintain such disclosure controls and procedures to ensure that material information relating to the Corporation is made known to management, particularly during the periods in which the Corporation's periodic reports are being prepared;
- maintain such internal controls and procedures for financial reporting to provide reasonable assurances that the Corporation's financial statements are fairly presented in conformity with generally accepted accounting principles;
- prohibit the establishment of any undisclosed or unrecorded funds or assets;
- disclose material off-balance sheet transactions in compliance with applicable laws and regulations; and
- otherwise present information in a clear and orderly manner.

#### Reporting any illegal or unethical behaviour

416 Senior Officers have a duty to adhere to the Code and the Corporation's policies and the Code of Business and Employee Conduct, and to report promptly to the Corporation any suspected violations in accordance with the applicable procedures. Senior Officers are required to report promptly to the Corporation's Company Secretary, who shall submit a report to the Audit Committee, regarding any observed violations of the Code, or any other illegal or unethical behaviour.

417 The Code of Ethics for Senior Officers cannot and is not intended to cover every applicable law or to anticipate every issue that may arise, but does set out the basic principles to be followed. If a Senior Officer is unclear about a particular situation, guidance must first be sought from the Company Secretary or, where appropriate, the Audit Committee before taking action.

418 Only the Managing Board shall have the sole and absolute discretionary authority to approve any amendment to or any deviation or waiver from the Code of Ethics for Senior Officers.

#### Accountability

419 While the Corporation's Company Secretary will oversee the procedures designed to implement the Code, it is the individual responsibility of each Senior Officer to become familiar with the Code, to adhere to the standards and restrictions set forth herein, to conduct himself or herself accordingly and to avoid even the appearance of impropriety.

420 – 430 (not used)

### **RESPONSIBILITY**

431 It is the responsibility of each Senior Officer to promote compliance with the standards and restrictions imposed by laws, rules and regulations applicable to the Corporation.

432 Each Senior Officer shall notify the Company Secretary promptly if he or she knows of any violation of the Code. Failure to do so is itself a violation of the Code.

433 Upon adoption of the Code (or thereafter as applicable, upon becoming a Senior Officer), each Senior Officer shall affirm in writing to the Company Secretary that he or she has received, read and understood the Code. Annually thereafter each Officer shall affirm that he or she has complied with the requirements of the Code.

434 Any matters that the Company Secretary becomes aware of which he or she believes is a conflict of interest or a violation of the Code, shall be reported to the Audit Committee which, if it is satisfied that a conflict of interest exists or that there has been a violation of the Code, shall refer the matter to either the Chief Officer or the Managing Board, depending on the nature and gravity of the conflict of interest or violation, who will take such action as may be deemed appropriate. The Audit Committee shall be responsible for reviewing any requests for waivers from the provisions of the Code.



435 Any amendments to the Code must be approved or ratified by the Managing Board.

436 All reports and records prepared or maintained pursuant to the Code will be considered confidential, and shall be maintained and protected accordingly by the Company Secretary. Except as otherwise required by law or by direction of the Managing Board or the Code, such reports and records shall not be disclosed to anyone other than the Members of the Managing Board.

437 – 500 (not used)

## **SECTION 5: THE CORPORATION'S EXTERNAL AUDITOR, RISK MANAGEMENT AND INTERNAL CONTROLS**

### **POLICY**

501 The Corporation's activities are subject to two levels of audit control. The first arises as a consequence of Section 14B of the KCRC Ordinance, whereby the Chief Executive of the HKSAR appoints the auditor (the External Auditor) for the Corporation to audit the Corporation's annual accounts after consultation with the Corporation. The Audit Committee is responsible for detailed oversight of the work of the External Auditor.

502 The second level involves monitoring and assessing the adequacy of the Corporation's own internal controls. This is the responsibility of both management and the Internal Auditor acting independently.

503 –510 (nor used)

### **EXTERNAL AUDITOR**

511 Although the Chief Executive of the HKSAR appoints the External Auditor to audit the Corporation's annual accounts, the Audit Committee of the Corporation must pre-approve any other audit and non-audit services performed by the External Auditor in order to assure that they do not impair the auditor's independence from the Corporation.

512 The External Auditor works closely with the Audit Committee in undertaking his duties. The External Auditor reports to the Managing Board through the Audit Committee. He is given the opportunity at every Audit Committee meeting to request an "in camera" session with only the members of the Committee present, so that he can raise matters of a sensitive nature where it might be inappropriate for any representatives of the executive management to be present.

513 – 520 (not used)

### **RISK MANAGEMENT**

521 The Corporation has established an Enterprise Risk Management (ERM) framework for the strategic management of business risks. The framework covers four main areas –

- (a) risk identification;
- (b) risk evaluation;
- (c) risk mitigation; and
- (d) risk monitoring and reporting.

522 For each of the risks identified, the Chief Officer is responsible for evaluating the risk from two perspectives, namely, the likelihood of the risk occurring and the severity of the consequences if the risk were to occur. The Corporation adopts a five-level likelihood of the risk occurring (i.e. very unlikely, unlikely, possible, likely, very likely) and a four-level consequence (i.e. significant, major, critical, catastrophic). One of four levels of risk rating is then derived for each individual risk item based on the degree of likelihood and severity of the consequence (i.e. low, medium, high, very high). An ERM register of risks is drawn up using this methodology. The risk register is reviewed annually and a report made to the Audit Committee, which will then decide whether there are matters that should be brought to the attention of the Managing Board.

523 To mitigate each of the identified risks, especially those involving a higher level of risk, the Chief Officer is responsible for proposing and implementing appropriate mitigation measures under the overall direction of the Managing Board via the Audit Committee.

524 – 530 (not used)

## **INTERNAL CONTROL**

531 The Managing Board is ultimately responsible for ensuring the adequacy of the internal controls of the Corporation and its subsidiaries, and for setting appropriate policies in respect of managing risk and monitoring the effectiveness of the necessary controls.

532. The Chief Officer, supported by a working group comprising senior management, is delegated the day-to-day responsibility of implementing and managing the system of internal controls, and for satisfying the Managing Board as to the adequacy of those controls. The Chief Officer must identify and evaluate the risks faced by the Corporation and propose a suitable system of internal controls and the mechanism for monitoring those controls via the Audit Committee to the Managing Board for its approval.

533 The Internal Auditor plays a major role, independent of management, in assessing and monitoring the internal controls of the Corporation. The Internal Auditor is responsible for evaluating the adequacy, cost-effectiveness and efficiency of the Corporation's internal control systems and procedures and for determining whether there is proper compliance with the Corporation's policies, rules and procedures.

534 Under the Outsourcing Agreement with the MTR Corporation, the MTR Corporation's Internal Auditor also provides the same service to the KCRC. In relation to the internal audit service rendered under the Outsourcing Agreement, the Internal Auditor reports directly to the Audit Committee of the Managing Board of the KCRC.

535 Audits are selected based on risk assessment to ensure that business activities with the highest risk are covered.

536 The Internal Auditor's staff perform independent audits of the Corporation's activities but have no involvement in day to day operations.

537 In performing their audits, staff of the Internal Auditor have full access to all of the Corporation's employees, records and property.

538 At the start of an audit, a notification is sent by the Internal Auditor to the individual responsible for the activities to be audited.

539 Upon completion of an audit, an audit report is issued to the individual responsible for the audited activities and copied to the Chief Officer and the External Auditor. Significant audit issues and the follow up results are also reported to the Audit Committee.

540 The Internal Auditor submits a half-yearly report to the Audit Committee on significant audit issues and implementation status of audit recommendations that fall due.

541 - 600 (not used)