

# Corporate Governance Report

## Corporate Governance

The Corporation maintains high standards of corporate governance. Being a statutory corporation established in Hong Kong by the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) (“the KCRC Ordinance”), it is not bound by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”). As a matter of policy, the Corporation complies with the Corporate Governance Code (“the Code”) as set out in Appendix C1 to the Listing Rules to the extent that they are applicable to the Corporation, IFRS Accounting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

## The Managing Board

The Corporation and its wholly or majority owned subsidiaries are controlled through its Managing Board (“the Board”). The Board’s main roles are to ensure that the Corporation complies in every respect with the provisions of the KCRC Ordinance to create value for its sole shareholder, i.e. the Hong Kong Special Administrative Region Government (“the Government”), to provide leadership to the Corporation, to approve the Corporation’s strategic objectives and to ensure that the necessary financial and other resources are made available to Management to enable them to meet those objectives. The Board has a schedule of matters reserved for its approval. The specific responsibilities reserved for the Board include but are not limited to:

- (a) rules for conduct of the Corporation’s business;
- (b) Three-Year Business Plans;
- (c) annual budgets;

- (d) annual reports and audited financial statements;
- (e) recommendations with respect to dividend payments;
- (f) major business strategies; and
- (g) award of major contracts and significant variations to those contracts.

In addition to the above, Management must report to the Board monthly on significant developments, together with the operating and financial results, information on use of the Corporate Seal, award of major contracts, and any other matters which may be required by the Board from time to time. The Board has delegated all other authorities to carry out the Corporation’s activities to the Chief Officer.

## The Roles of the Chairman and the Chief Officer

The division of responsibilities between the Chairman of the Board and the Chief Officer is clearly defined and has been approved by the Board. The non-executive Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for the conduct of the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is not involved in the day-to-day business of the Corporation. The Chairman facilitates the effective contribution of non-executive Members of the Board and constructive relations between Management and Members, ensuring that Members receive accurate, timely and clear information, as well as ensuring effective communication with the Corporation’s sole shareholder. The Chief Officer has direct charge of the Corporation on a day-to-day basis and is accountable to the Board for the Corporation’s financial and operational performance.

## Members and Members' Independence

The Board currently comprises the Chairman and five other non-executive Members, all of whom are senior public office holders in the Government. All are appointed to the Board on an ex-officio basis by the Chief Executive of the Hong Kong Special Administrative Region. Members have, if required, access to independent professional advice at the Corporation's expense, in order for them to carry out their responsibilities. Notwithstanding that they are public office holders, Members are expected to be independent in their judgement. The names of Members together with their details are set out on pages 2 to 3.

## Professionalism

Each Member receives information about the Corporation, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board and its committees and the powers delegated to those committees, the Corporation's corporate governance practices and procedures including the powers reserved for the Corporation's senior executives, and the latest financial information about the Corporation. Throughout their period in office, Members are continually updated on the Corporation's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Corporation and the industry it operates in as a whole, by written briefing papers and meetings with senior executives. Members are also advised of their legal and other duties and obligations as a Member of the Board by the Company Secretary. They are regularly reminded of these duties and updated on changes to the legal and governance requirements which impact on the Corporation and themselves as Members of the Board. Regular reports and papers are circulated to Members in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by Members from time to time. All Members receive monthly management accounts and regular management reports, which enable them to scrutinise the Corporation's and Management's performance against agreed objectives.

## The Company Secretary

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. Members have access to the advice and services of the Company Secretary.

## Relations with the Sole Shareholder

To fulfil the Chairman's obligations under the KCRC Ordinance and the Code, the Chairman gives feedback to the Board on issues raised with him by the Corporation's sole shareholder. The Corporation maintains a corporate website, [www.kcrc.com](http://www.kcrc.com), containing a wide range of information of interest to all stakeholders.

## Internal Control and Risk Management

The Board is ultimately responsible for the Corporation's system of internal control. It ensures through the Audit Committee and the outsourced internal audit function that appropriate policies on internal control are in place and through this team seeks assurance that enables it to satisfy itself that the system of internal control is functioning effectively including managing the risks in the manner as approved. The Board is required to review on an annual basis the effectiveness of the Corporation's system of internal control through the Audit Committee, including financial, operational and compliance controls, and the Corporation's internal control arrangements, and to consider and take appropriate action in respect of reports received from the external auditor on matters identified during the course of statutory audit work.

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The Corporation views the careful management of risk as a key management activity and the Board is also ultimately responsible for the effectiveness of risk management. The Board ensures through the Audit Committee that opportunities be captured while managing business risks. This is done using a simple and flexible framework that provides a consistent and sustained way of implementing the Corporation's risk management. These business risks, which may be strategic, operational, or reputation-related, are made known to Members. The business context determines in each situation the level of acceptable risk and controls. The Board is required to review the effectiveness of risk management on an annual basis through the Audit Committee.

The annual review in 2023 concluded that the existing risk management and internal control system are effective and adequate.

### Board and Audit Committee Meetings

The Board usually meets quarterly, and on an ad hoc basis when appropriate. It is responsible, inter alia, for overall corporate strategy, approval of the Corporation's annual budget, major financing arrangements, and ensuring that sound administrative systems and procedures are in place. It reviews monthly the Corporation's operating results, and the progress made towards annual targets. With the position of Chief Executive Officer being left vacant from December 2007, the Board has delegated to the Chief Officer the authority for the management of day-to-day operations.

There were four Board and three Audit Committee Meetings held during the year up to 31 December 2023 and attended by Members as listed in the following table.

	<b>Board Meetings</b>	<b>Audit Committee Meetings</b>
Mr Christopher Hui Ching-yu (Note 1)	4	N.A.
Ms Mable Chan	4	N.A.
Ms Susanna Cheung Sau-lan (Note 2)	4	3
Mr Eugene Fung Kin-yip	4	3
Ms Winnie Tse Wing-yee	3	N.A.
Mr Aaron Liu Kong-cheung	4	3

Note 1. Chairman of the Board.

Note 2. Chairperson of the Audit Committee.

In 2023, a total of 50 decision and information papers were considered by the Board.

## Audit Committee

During the year, the Audit Committee comprised Ms Susanna Cheung Sau-lan (Chairperson), Mr Eugene Fung Kin-yip and Mr Aaron Liu Kong-cheung. All members of the Audit Committee are non-executive Members of the Board. The Audit Committee has at least one member possessing “recent and relevant experience”, namely, Ms Susanna Cheung Sau-lan, who is a certified public accountant and also the Director of Accounting Services of the Government.

Under its terms of reference, the Audit Committee monitors the integrity of the financial statements and any formal announcements relating to the Corporation’s performance. The Audit Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Corporation and the external auditor is maintained, including reviewing the latter’s non-audit services and fees for the Corporation. It also monitors the effectiveness of the Corporation’s system of internal control and the processes for monitoring and evaluating the risks facing the Corporation. The Audit Committee reviews the effectiveness of the internal audit function, which is currently provided by the internal audit department of MTR Corporation Limited under an outsourcing arrangement, and is responsible for recommending to the Board the renewal and termination of that outsourced service function. The Audit Committee has undertaken to review its terms of reference at least once every three years and its effectiveness and, if appropriate, will recommend to the Board any changes required as a result of the review.

The Audit Committee meets with Management, as well as privately with both the external and internal auditors. The Audit Committee’s terms of reference are available from the Company Secretary and in the Corporate Governance Manual displayed on the corporate website, [www.kcrc.com](http://www.kcrc.com). In 2023 the Audit Committee discharged its responsibilities by:

- (a) reviewing the Corporation’s draft financial statements prior to Board approval;
- (b) reviewing the external auditor’s report thereon;
- (c) reviewing the appropriateness of the Corporation’s accounting policies;
- (d) reviewing the potential impact of the generally accepted accounting principles in Hong Kong on the Corporation’s financial statements;
- (e) reviewing, recommending or pre-approving audit fees;
- (f) reviewing the external auditor’s plan for the audit of the Corporation’s financial statements; and
- (g) approving the annual internal audit plan and reviewing reports on the adequacy and effectiveness of system of internal control, financial reporting and risk management.

The Audit Committee has taken on responsibility for monitoring the Corporation’s whistle blowing procedures, which ensure that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action.

### Auditor's Independence and Objectivity

The Audit Committee monitors regularly and closely the non-audit services being provided to the Corporation and its subsidiaries by its external auditor, who is appointed by the Chief Executive of the Hong Kong Special Administrative Region, to ensure that the provision of such services does not impair the external auditor's independence or objectivity. If and when appropriate the Audit Committee will engage the services of alternative, appropriately qualified accounting firms to undertake non-audit services. When considering any non-audit services to be undertaken by the external auditor for the Corporation, the Audit Committee is mindful of the need to be satisfied that the external auditor should not audit its own work, make management decisions for the Corporation or its subsidiaries, have a mutuality of financial interest with the Corporation or its subsidiaries, or be put in the role of advocate for the Corporation or its subsidiaries. The Audit Committee also takes into consideration relevant professional and regulatory requirements so that these are not impaired by the provision of permissible non-audit services by the external auditor. Prior approval by the Audit Committee is required for any services provided by the external auditor for the Corporation. Any activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the Audit Committee for its consideration and approval prior to engagement. Details of the amounts paid to the external auditor during the year for audit and other services are set out in Note 7(a) to the Financial Statements.

### Dividend Policy

Details of the dividend policy for the Corporation are set out in Note 24(d) to the Financial Statements.