

# Risk Management

Business units across the Company fully embrace the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to aid business units across the organisation to identify and review risks and prioritise resources to manage those that arise. It also provides management with a clear view of the significant risks facing the Company and is used to support decision making and project execution, in turn helping to deliver better business performance.

The Enterprise Risk Committee ("ERC"), which is chaired by the Legal Director & Secretary and comprises management representatives from key business functions, has accountability for the ERM framework. The ERC steers the implementation and improvement of the framework, reviews the Top 30 and emerging risks every quarter and reports the key risks to the Executive Committee every six months. Every year, the Audit Committee reviews the risk management process and the Board maintains an oversight of the Top Ten risks.

The regular review and reporting of the Top Ten and Top 30 risks at the Board, Executive and management levels are essential processes to sustain a risk-informed and risk-aware culture in the organisation.

## Management of Key Risks

The Company takes proactive measures to manage the risks arising from its existing and growth businesses, as well as from the constantly changing business environment. Some key risks currently being managed are:

- Patronage continues to grow year after year and the Company must maintain railway safety standards at the highest level and continue to improve service quality in these challenging circumstances. The Company has implemented many initiatives over the years to allow more train trips to be run in order to ease train crowding, while station enhancement through the modernisation and relocation of station facilities and kiosks is conducted in parallel to address station crowding. In addition, some parts of the Operating Railway are being modified to allow interface with the new railway extensions that will enhance the capacity of the Operating Railway in the near future. The Company is working closely with contractors and other key stakeholders to plan and implement these improvement works in a prudent manner, to ensure that safety will not be compromised and that the works will progress as planned, with minimum impact on passenger service, in all parts of the busy system.
- The construction of the five major railway expansion projects in Hong Kong is in full swing, with some of them having progressed to a fairly advanced stage. The West Island Line, which is an underground extension of the existing Island Line and connects Sheung Wan to Kennedy

Town, has reached the final construction stage and is scheduled to open for revenue service in 2014. Colleagues in the Projects team and Operations team are working hand in hand to ensure that this new extension line will continue to progress safely through the remaining construction phase and open on time, within budget and delivering a reliable and high quality service to passengers.

- The Company continues to invest in building up a resources pool to support its growth in Hong Kong, the Mainland of China and overseas in the coming few years. The Company has launched various initiatives to steer manpower planning, succession planning and training and development at all levels. With the growing businesses outside of Hong Kong, the Company has engaged a local university to run a management development programme for talented managers from across the organisation, with the aim of sharpening their management knowledge, aligning the strategic focus of the teams, as well as reinforcing connections and a cross-learning culture among colleagues. In addition, to assure a high level of safety performance, the Company offers safety induction training to all new recruits and refresher safety training to existing staff to reinforce and enhance staff safety awareness. A comprehensive safety management training programme has been rolled out to all managers of the Company.

## Continuous Improvement of the Risk Management Process

We maintain a strong desire to improve our systems and tools through annual reviews with users, cross-industry benchmarking and experience sharing. The Executive, senior managers and members of the ERC participated in an Enterprise Risk Workshop facilitated by two experienced independent consultants in 2013. The aims of the workshop were to review how other international companies have failed and to explore how the Company can gain better assurance that its corporate objectives will be achieved more reliably.

Key activities undertaken during 2013 included:

- Sharing and learning from the sixth UK ERM roundtable, the fifth HK ERM roundtable and the first Beijing ERM roundtable on best practice for enhancement of ERM process
- Cross-learning among the Company's Enterprise Risk Managers, subsidiaries and affiliates through a webinar
- Engaging two experienced ERM consultants to facilitate an Enterprise Risk Workshop to review and identify pragmatic improvement initiatives to further enhance the management of high consequence enterprise risks
- Conducting an internal review with ERC members and key internal stakeholders on the project risk management process and investment governance process
- Conducting regular meetings with our insurance broker for risk analysis