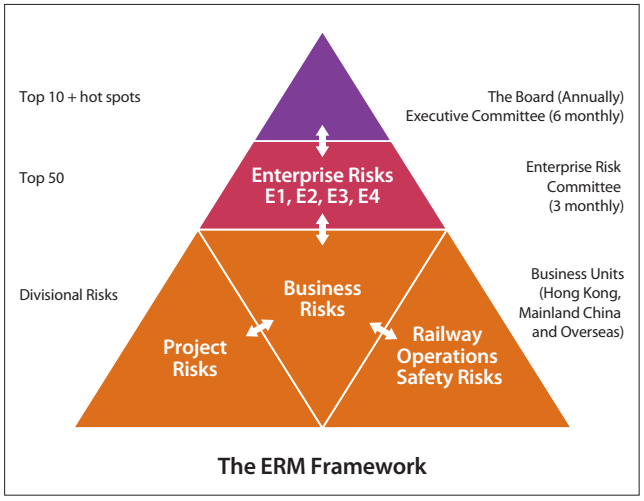
The Company has established an Enterprise Risk Management ("ERM") framework for the strategic management of business risks to ensure the continued and long term success of the Company.

The ERM Framework

The framework covers all key business areas of the Company and provides a useful forum for communicating risk issues at different levels of the organisation and thereby promotes and improves awareness and understanding of risk. Structured cross-discipline processes and organisations are in place at corporate and divisional levels for risk identification, assessment, mitigation and monitoring. A standard risk rating system is employed across the Company to prioritise risks for mitigation, effective monitoring and reporting. A risk will be rated (E1 to E4) according to the combination of its likelihood of occurrence and consequence on financial, safety, business operational performance, legal/ regulatory and/or political/reputational aspects. The ERM Manual that governs the working of the ERM framework has been regularly enhanced, and regular briefing sessions are conducted to invigorate and ensure consistent understanding of ERM.



The ERM Framework

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee ("ERC"), is underpinned by line management taking direct risk management responsibilities as risk owners. There are approximately 150 risk owners within the 19 business units monitoring around 700 identified risks.

Systematic Risk Assessment and Reporting

Changes to existing and emerging risks are regularly reviewed by line management. The ERC reviews the operation of the ERM framework and key business risks every three months. The risk reviews cover changes in business environments, the key internal and external risks facing the Company, and the risk perspectives of the Executive Committee, business managers and outside stakeholders. The ERC promotes a proactive risk culture by learning from risk events and failures. The ERC is also supported by risk co-ordinators from different divisions and departments who have been appointed to review risks and processes and share lessons throughout the organisation.

The Risk Assessment Process

Risk assessment is part of the Company's everyday management processes. Risks associated with major changes and new businesses such as local and overseas railway construction, investment and consultancy projects are assessed at key stages and project milestones to support decision making. The Enterprise Risk Management Department plays a central role in facilitating risk assessments and reviewing existing and emerging business risks.

The Executive Committee reviews key enterprise risks and "hot spots" half-yearly and the Board annually to ensure that such risks are under satisfactory control. The Audit Committee also reviews annually the implementation of the ERM framework and the organisation and processes that have been put in place to support it.

Continuous Improvement

The ERM framework has been in operation since early 2006 and its application has been enhanced through annual reviews of the framework, user feedback surveys every two years and experience sharing with leading UK ERM-practising companies and major Hong Kong companies. The Company commissioned the first external review of the ERM framework in 2009 by a renowned global company based in the UK. The review revealed that the Company has a strong culture of risk management and is positioning ERM as one of its competitive advantages. Some potential improvement opportunities were also indentified, which are under further evaluation.