

RISK MANAGEMENT

The Company's Enterprise Risk Management (ERM) framework continues to provide a simple and effective management process that aids 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 and other risk "hot spots".

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:

- The Company is undertaking five major railway extension projects, as well as many improvement works on the existing network and property development projects. The Company is fully committed to ensuring that these projects are delivered safely, during both construction and operation, on time, within budget and with the minimum unfavourable impact on society and the environment.
- The Company has a number of operating railway projects in Mainland of China and overseas. The Company is taking a pragmatic approach to enable these businesses outside of Hong Kong to grow sustainably by transferring to them relevant best practices developed in Hong Kong and facilitating amongst them cross-learning of best practices.
- The Company recognises that managing the impacts of climate change is an important component of sustainable growth. Although the potential impact of climate change on the Company's overall business performance is low, the Company has taken a proactive approach by preparing contingency plans to address issues of concern such as super typhoons and tsunamis. The Company also closely monitors the relevant legislation and regulations in order to take proactive steps to ensure compliance.

CONTINUOUS IMPROVEMENT OF THE RISK MANAGEMENT PROCESS

The ERM framework has been in operation since early 2006. We maintain a strong desire to improve our systems and tools through annual reviews with users, cross-industry benchmarking and experience sharing. The key activities undertaken during 2011 included:

- Streamlining the Top 50 Risks to Top 30 Risks, enabling the ERC to focus on key issues.
- Sharing and learning from the fourth UK ERM round table and the third HK ERM round table on best practice for governance of investment projects and enhancement of the ERM process.
- Co-hosting a Strategic Risk Management Workshop with the participation of a number of leading global railway operators to exchange risk management practices.
- Engaging an ERM consultant to conduct focused ERM workshops for relevant staff.
- Conducting regular meetings with our insurance broker for risk analysis.