



# RISK COMMITTEE REPORT

As at the date of this Report, the Risk Committee of the Company (referred to as the “Committee” in this report) consists of seven non-executive Directors, five of whom are Independent Non-executive Directors of the Company (“INEDs”). Details of the Committee’s members and their attendance records during 2018 are set out on pages 120 to 121 of this Annual Report.

The Committee, with delegated authority from the Board, has evaluated the effectiveness and adequacy of the Company’s Enterprise Risk Management (“ERM”) system and considers that it is overall effective and adequate. Nonetheless, in light of the issues revealed in relation to the Shatin to Central Link project (“SCL”), the Committee is in agreement with the Company’s Audit Committee and fully supports a review of the Company’s internal control and risk management systems (the “Review”) for continuous improvement as mentioned in the Corporate Governance Report. The Review has adopted a phased approach, with the first phase of work starting in February 2019.

Further, as mentioned in the Corporate Governance Report, with regard to the incidents relating to the SCL project in 2018, an analysis has been undertaken to identify areas for continuous enhancement of the Company’s risk management and internal control systems. A summary of the key actions identified are set out on pages 117 to 118 of this Annual Report.

## DUTIES OF THE COMMITTEE

The Committee’s Terms of Reference are available on the respective websites of the Company ([www.mtr.com.hk](http://www.mtr.com.hk)) and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee include reviewing the Company’s ERM framework, guidelines, policy and procedures for risk assessment and risk management; reviewing the Company’s top risks and key emerging risks and the controls in place to mitigate such risks; monitoring the Company’s risk profile; conducting “deep dive” reviews on selected key risk areas; reviewing the effectiveness of the ERM function; and reviewing the Company’s crisis management arrangements.

The Committee assists the Board in overseeing the Company’s ERM system on an ongoing basis. The Committee reviews the effectiveness of the Company’s ERM system annually, and reports to the Board in relation to such review. More details of the features of the ERM system and processes, the significant areas of risk being managed, and the process used to review the effectiveness of the ERM system are set out in the “Risk Management” section on pages 142 to 145 of this Annual Report. Each year, the Committee agrees on a list of reviews and presentations in respect of selected key risk areas to be considered for that year, taking into account the ongoing activities of the Company at the material time; and invites relevant management to present on the subjects and conduct interactive discussions. The list of matters to be considered is updated as required to include any topical subjects or risks that may emerge during the year. The Committee provides observations and, where applicable, recommendations to management, based on their reviews and discussions.

The secretary of the meetings draws up agendas for each meeting in consultation with the chairman of the Committee, making reference to the list of reviews and presentations determined by the Committee, as well as topical matters at the relevant time.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Committee meeting.

The minutes of the Committee meetings are prepared by the secretary of the meetings with details of the matters considered by the Committee Members, including recommendations and any observations raised by the Committee Members. Draft minutes are circulated to the Committee Members before adoption. The Committee formally adopts the draft minutes at its next subsequent meeting, after taking into account any comments that the Committee Members may have on the draft minutes.

A total of four meetings have been scheduled to be held on a quarterly basis in 2019.

## WORK PERFORMED BY THE COMMITTEE IN 2018

In 2018, the Committee held four meetings. During the year, the Committee reviewed the Company's ERM quarterly reports and the effectiveness of the Company's ERM system for the year ended 31 December 2017. A review of the Company's ERM annual report and ERM system effectiveness for the year ended 31 December 2018 was conducted by the Committee on 25 February 2019.

The Committee reviewed the Company's risk profile, top risks and key emerging risks at each of its meetings. At its first meeting, the Committee agreed on a list of "deep dive" reviews and presentations on selected key risk areas for the year, which reviews and presentations took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the "deep dive" reviews or presentations to the Committee, with comments and recommendations provided by the Committee for appropriate action by management.

In particular, following the unearthing of the work quality issues relating to the SCL project, the key risk area of "New Projects Delivery and Cost" of the Company has been updated to become "New Projects Quality, Delivery and Cost" to make explicit reference to, and ensure appropriate focus on, the quality element. Improved controls for enhancing the checks and balances within relevant processes and procedures relating to the Company's project management regime have been identified for implementation.

The Legal and European Business Director, the General Manager – Governance & Risk Management and the Senior Manager – Enterprise Risk, representing the ERM function, attended all four meetings in 2018 to report and answer questions on ERM related matters.

The Committee considered the following matters in 2018:

- Light rail and bus risk management
- Near capacity operation and crowd management in stations
- Unexploded ordnance found during construction of Exhibition Centre Station
- Readiness for Express Rail Link Day 1 opening in September 2018
- Update on Corporate Security Governance Structure for physical security and cyber security
- Cyber security update on IT and operations systems (Hong Kong)
- Strategic risks of Mainland China and International Businesses
- Future-proof design for extreme weather, ageing population and automation
- Update on Building Information Modelling application in a proposed new railway project
- Insurance summary update
- Challenges from e-commerce
- Property asset bubble
- Major global rail accidents summary overviews

Andrew Brandler  
*Risk Committee Chairman*  
Hong Kong, 7 March 2019

*The Risk Committee Report has been reviewed and endorsed by the Committee.*