

Risk Management

Business units across the Company 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 risks 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 Board oversees the Company's top risks and emerging risks and, with a view to enhancing its oversight, established a Risk Committee in August 2014. The Risk Committee comprises Non-Executive Directors and Independent Non-Executive Directors of the Company, and is mandated by the Board to review the ERM framework effectiveness, top risks and emerging risks, to commission "deep dive" reviews on key risk areas, as needed, and also to review the Company's crisis management arrangements. The Risk Committee meets quarterly and reports to the Board.

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 risks and key emerging risks every quarter and also reports the key risks to the Executive Committee and the Risk Committee, on a quarterly basis and to the Board on a six monthly basis.

Management of key risks

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

- The impact to the Company's reputation from various events in 2014, including programme slippage and cost overrun of the Company's new railway projects, and a number of longer train service delays. In response to this issue, the Company has taken swift action to:
 - strengthen its project governance framework, adopting the recommendations of the Independent Board Committee ("IBC") appointed by the Board in relation to the Express Rail Link, including the establishment of a Capital Works Committee to oversee major capital works of the Company; and
 - formulate a comprehensive communication plan with a view to providing more timely and transparent information to stakeholders and the public on key issues, for example, by organising regular media briefings by the Executives.
- The challenges being faced by the five major new railway projects in Hong Kong, such as the general shortage of workers, geotechnical difficulties, and the carrying out of construction activities in close proximity to the operational railway and urban developments. Programme slippage and cost overrun on these projects remain among the top risks in the Company's enterprise risk profile. In relation to the Express Rail Link, the Board commissioned the IBC in April 2014 to review the Company's management of the project.

Following the release of the IBC's first and second reports, enhancements to the Company's project management, budget control and reporting processes and procedures have been identified, and implementation is now in progress.

- Our heavy rail service experienced more incidents that caused service disruptions of 31 minutes or more in 2014 than in 2013 (12 in 2014 with over 1.8 million train trips operated). The root causes of the delays vary from product quality to isolated system issues. Enhancements to the Company's supply chain quality assurance process for service critical equipment have been implemented since May 2014. In addition, cross-divisional expert groups and specialist consultants have been engaged to conduct technical studies and identify areas for improvement.
- Workforce transition and increased manpower needs. The Company will have a number of staff reaching retirement age in the next few years leading to a retirement wave. This, together with the additional demand required for opening the new extension lines to be commissioned over the next few years, are putting pressure on human resources management. Various measures for recruitment, staff development and succession planning are in progress to mitigate the possible impact.

Continuous improvement of the risk management process

Consistent with our strong desire to improve the Company's systems and tools, and after reflecting on business challenges faced, in mid-2014, the ERC conducted a thorough review of the ERM framework and identified a number of enhancement initiatives. These included the launch of the first "Risk Awareness Week" in October 2014 to raise risk awareness across all levels of the organisation, the launch of a computer based ERM training programme for managers, regular discussion by the Executive Committee of top risks and emerging risks, as well as more frequent reporting by the ERC to the Executive Committee and to the Board. These enhanced ERM processes are helping to reinforce a risk-informed and risk-aware culture.

We also keep ourselves abreast of the latest developments in risk management through reviews with users, cross-industry benchmarking and experience sharing. As part of the Risk Awareness Week 2014 event, we engaged external risk experts to share best practices on risk management with executives, senior managers, members of the ERC and divisional risk co-ordinators.

Key activities undertaken in 2014 include:

- Sharing and learning of best practice in ERM implementation through the seventh UK ERM Roundtable and the sixth HK ERM Roundtable meetings;
- Cross-learning among risk managers from different business units, including subsidiaries and associates in the Mainland of China and overseas, through an in-house "Audit and Risk Forum" held in Hong Kong in April 2014 and two other webinars in November 2014; and
- Conducting regular meetings with our insurance consultant for risk analysis.