

RISK COMMITTEE REPORT

As disclosed in the Corporate Governance Report of this Annual Report on pages 102 to 131, the Board recently restructured the Company's Board Committees with a view to enhancing Board effectiveness and ensuring that the Board was fit for purpose for supporting the implementation of the new corporate strategy. As a result of this restructuring, the role of the Risk Committee in reviewing the Company's ERM framework (a key internal control), associated policies and procedures and the effectiveness of the ERM function has been transferred to the Audit Committee, which has been renamed as the Audit & Risk Committee. The review of the Company's top risks and monitoring of its risk profile will be undertaken by the Board of the Company and reviews of specific key risk areas will be delegated to relevant Committees or Advisory Panels with expertise in the area under discussion. The Risk Committee has therefore been disbanded with effect from 1 February 2022.

During the year ended 31 December 2021, the Risk Committee (referred to as the "Committee" in this report) consisted of seven Non-executive Directors, five of whom were Independent Non-executive Directors of the Company ("INEDs"). Details of the Committee's members and their attendance records during 2021 are set out on pages 119 to 121 of this Annual Report.

DUTIES OF THE COMMITTEE

During the year ended 31 December 2021, the Committee's Terms of Reference was available on the respective websites of the Company and The Stock Exchange of Hong Kong Limited.

The principal duties of the Committee included 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 assisted the Board in overseeing the Company's ERM system on an ongoing basis. The Committee also reviewed the effectiveness of the Company's ERM system and reported 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 of this Annual Report on pages 135 to 139. Each year, the Committee has agreed 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, and invited relevant management representatives to present on the subjects and conduct interactive discussions. The list of matters to be considered was updated over the course of the year to include any topical subjects or risks which emerged during the year. The Committee provided observations and, where applicable, recommendations to the management team based on their reviews and discussions.

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

The chairman of the Committee summarised the activities of the Committee and highlighted issues arising therefrom in a report to the Board after each Committee meeting.

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

WORK PERFORMED BY THE COMMITTEE IN 2021

In 2021, 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 ending 31 December 2020.

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 took place as planned. Relevant Members of the Executive Directorate and managers were invited to present on the "deep dive" reviews to the Committee, with comments and recommendations provided by the Committee recorded for appropriate action by the management team.

Acting through the Committee and the Audit Committee, in 2019 the Board mandated a review of the Company's internal control and risk management systems. In 2020, an external consultant was appointed to conduct a deep-dive assessment of the Company's existing Three Lines of Defence ("3LoD") framework, with a view to identifying any gaps or improvements in the framework. The results of this assessment were presented to and endorsed by the Committee and the Audit Committee in late 2020. Over the course of 2021, the Company has strengthened its Second Line of Defence ("2LoD") through the establishment of an independent Assurance Management Department, which has been complemented by new technical and engineering Centres of Excellence and a new Strategic Assurance Review Board which serves to coordinate and focus assurance activities as well as to highlight any insights or concerns to relevant Executives. The new 3LoD model and framework was successfully piloted within the Capital Works Business Unit in late 2021 and will be rolled out in a phased manner to other business units starting in early 2022.

The Legal and Governance Director and the Chief Enterprise Risk Manager, representing the ERM function, attended all four meetings in 2021 to report and answer questions on ERM related matters.

The Committee considered the following key matters in 2021:

- Audit on track asset management
- Scenario Planning for new business normal and post COVID-19 environment
- Update on 3LoD implementation
- Review on cyber security and cyber threat horizon scan
- Incident response and tabletop drill exercise on ransomware threats and attacks
- Readiness and preparation for Tuen Ma Line full line opening
- Matrix organisation and associated risks
- Update on signalling replacement project risks
- Resourcing, competence and succession planning
- Supply chain and third-party business partner risk management
- Insurance summary update
- Notable cyber incidents summary overviews
- Major global rail accidents summary overviews

Andrew Brandler
(Former) Risk Committee Chairman
Hong Kong, 10 March 2022

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