

# Risk Management

## SYSTEM FEATURES

Business units across the Company embrace the Company's Enterprise Risk Management ("ERM") framework which underpins their day-to-day business activities. The framework provides a simple and effective management process to:

- Identify, assess, and effectively manage operational, functional, and enterprise risks across the Company
- Prioritise resources to manage risks
- Give management a clear view of the significant risks facing the Company
- Support decision making and project execution for better business performance

The Board, with the assistance of the Audit & Risk Committee oversees the Company's ERM framework and top risks, whereas the Executive Committee, with the support of the Enterprise Risk Committee ("ERC"), is overall accountable for the ERM policy, system implementation and continuous improvement.

The Executive Committee provide top-down views on the key risks of the Company through discussions on the quarterly enterprise risk reports and during "Blue Sky" (brainstorming) risk workshops. In November 2025, a "Blue Sky" workshop was held in which the Executives examined the Company's operational resilience against unexpected events and crises, and identified areas for continuous improvements.



\* See the Audit & Risk Committee Report (pages 100 to 102 of this Annual Report) for duties and work performed by the Committee in 2025.

The Company's risks are rigorously identified, assessed and managed. Each risk is evaluated on the likelihood of its occurrence, as well as the potential consequences, while taking existing controls into consideration. A risk matrix is used to determine a risk rating (E1 – E4), with E1 being a relatively high risk and E4 being a relatively low risk. The risk rating determines the required level of management attention and risk treatment effort, while considering the Company's risk appetite. The highest category of risk, "E1", is subject to Board, Board Committee and Executive Committee oversight.

While encountering risk is inevitable in the course of business, the Company's appetite for risk varies and is particularly low in certain areas such as in relation to public and employee safety and the provision of a reliable transport service.

The Company's ERM system provides an important internal control in identifying, assessing and managing risks affecting the Company. As a learning organisation, the Company constantly looks for improvement opportunities through internal and external reviews and studies, including learning from incidents encountered during its operations. In relation to the three rail incidents in 2025, namely the East Rail Line engineering train incidents in February and April respectively, as well as the Tseung Kwan O incident in May, the Company has formulated a series of improvement actions. These cover a special inspection of targeted critical assets, and measures including the use of technology to strengthen

- Exercise ongoing risk oversight
- Establish appropriate risk management strategies
- Oversee the ERM framework
- Review top risks and emerging risks
- Conduct annual review of ERM system effectiveness

- Implement and continuously improve ERM framework
- Enterprise Risk Committee
  - Chaired by Legal and Governance Director
  - Comprises representatives from all business units and corporate functions
  - Steers framework implementation and improvement
  - Reviews Company's Principal Risk Areas and key emerging risks
  - Reports to Executive Committee and Audit & Risk Committee quarterly, and to Board every six months

- Establish arrangements and implement risk management process consistent with the Company's ERM framework and policy
- Manage risks, and identify and implement risk controls
- Capture identified risks in risk registers for regular review and monitoring

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the monitoring and management of railway assets to enhance operational resilience; plans for dealing with extreme scenarios facilitated by drills and training with strengthened decision-making and execution capabilities of staff during incidents; enhanced free shuttle bus arrangements and information dissemination to passengers; and community-based support to assist affected passengers as required.

The ERM Team within the Legal and Governance Function maintains a list of issues and risk drivers pertinent to the changing business and external environments, which is used to assist the ERC in identifying potential risks that may emerge.

In 2025, the Company took steps to update its ERM Manual, enhancing risk register content and streamlining the enterprise level risk profile (consolidating enterprise

risks under Principal Risk Areas) and has deployed risk dashboards which make reference to quantitative key risk indicators, risk control effectiveness assessments, and assurance information from across the Three Lines functions.

## MANAGEMENT PROCESS FOR SIGNIFICANT RISKS

The Company adopts a proactive management process to identify, evaluate, treat, report and monitor significant risks arising from its recurrent and growth businesses and from the constantly changing business environment. Risk management strategies are developed for different areas including, but not limited to, operations, construction, finance, and environment, social and governance (“ESG”).



\* Areas below are not exhaustive

In addition, the ERC and the Executive Committee review the Company’s Principal Risk Areas and enterprise risk profile, and brainstorm emerging risks quarterly to ensure key risks are captured, assessed and controlled. The Board also reviews these on a six-monthly basis.

The Company has streamlined the enterprise level risk profile by consolidating enterprise risks under Principal Risk Areas to facilitate efficient, focused risk management and discussions. Key risk management focuses are as follows:

Complex Relationships with Stakeholders	
Key Challenges	<ul style="list-style-type: none"> <li>Managing complex relationships with stakeholders and seeking to balance their sometimes competing expectations and requirements</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Strategic and policy engagement with Government, Legislative Council, District Councils, politicians and influence groups</li> <li>Proactive, tailored communication with passengers, community and influence groups, anticipating needs and maintaining stakeholder confidence</li> <li>Monitoring of the political landscape and events, and their potential impact on the Company’s businesses</li> <li>Monitoring of public opinions and customer perceptions through public surveys, consultation sessions and customer feedback channels</li> </ul>

## Safe, Reliable and Resilient Rail Network

Key Challenges	<ul style="list-style-type: none"> <li>Ensuring a safe, reliable and resilient railway network while addressing ageing assets, coordinating essential maintenance and complex project works alongside the operating railway, and responding to external challenges such as extreme weather events, passenger behaviour and demographic shifts</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Manage railway assets throughout their lifecycle to ensure safe and efficient operation</li> <li>Design railway systems and equipment to be safe, meet applicable design standards and regulatory requirements, and establish processes, procedures, and systems of work to ensure safe railway operations</li> <li>Strengthen passenger safety through targeted awareness campaigns and frontline resource deployment</li> <li>Provide clear, timely and transparent communications and customer care support during service disruptions to minimise the impact</li> <li>Ensure incident management plans are tested, with regular crisis exercises, drills and tests</li> <li>Use technology and monitoring tools to detect early signs of anomalies for preventive maintenance</li> <li>Formulate measures to speed up recovery from extreme incident scenarios through a review of last-resort recovery procedures and readiness of specialised tools</li> <li>Prepare for extreme weather events through proactive planning and coordinated response</li> </ul>

## Delivery of Railway Projects

Key Challenges	<ul style="list-style-type: none"> <li>Delivering railway projects, and managing project programmes and cost challenges arising from complex designs and significant integration with the existing rail network</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Measures and processes ensuring engineering design, specifications, and technical standards of the rail system are robust, safe, and compliant with regulatory and operational requirements</li> <li>Controls to manage risks associated with the construction of infrastructure, including contractor performance, quality assurance, schedule adherence, and environmental compliance</li> <li>Processes to ensure all sub-systems (e.g., signalling, rolling stock, communications, power) are properly integrated and function cohesively as a complete rail system</li> <li>Mechanisms to manage financial, contractual, and procurement risks, ensuring value for money, cost control, and legal compliance throughout the project lifecycle</li> <li>Governance and assurance mechanisms to ensure projects are delivered on time, within scope and budget, and align with corporate objectives</li> </ul>

## Competent/Engaged/Motivated Resource

Key Challenges	<ul style="list-style-type: none"> <li>Maintaining a competent and engaged workforce to deliver the Company's strategy, projects and operations</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Establish competence standards, confirm performance requirements, identify, assess and develop (including through training) the skills, knowledge and experience required of employees to discharge their job responsibilities safely and effectively</li> <li>Implement a Performance Management System, and a compensation and benefits regime that are market competitive, driving employee satisfaction and retention</li> <li>Engender positive relationships and mutual respect between management and employees through staff consultation mechanisms, internal communication and feedback channels, reward and recognition schemes, employee engagement and motivation programmes</li> <li>Identify the Company's current and future needs for planning of recruitment and staff development initiatives to ensure availability of necessary resources</li> <li>Focus on talent attraction and acquisition, including employer branding activities, to attract and retain talent, promote a positive work culture, and foster employee engagement and loyalty</li> <li>Identify and develop employees with potential in succession planning for critical business positions</li> </ul>

## Financial Performance

Key Challenges	<ul style="list-style-type: none"> <li>Diverse factors including evolving consumer patterns and traveller behaviours, the health of local and regional economies, geopolitical and macroeconomic uncertainties, and the need to secure funding for new extension projects and operating railway asset upgrades</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Forward looking view of capital expenditure needs and prevailing market conditions to determine external fund-raising needs</li> <li>Implementation of capital optimisation programmes for new railway extension projects</li> <li>Implementation of prudent cost control and upholding of robust financial management</li> <li>Implementation of promotion and business initiatives to strengthen competitiveness and create new business opportunities</li> <li>Pursuit of growth opportunities in the Chinese Mainland and overseas that align with the Company's strategy</li> </ul>

## Develop, Integrate and Implement ESG Strategy

Key Challenges	<ul style="list-style-type: none"> <li>Setting appropriate environmental and social objectives, and developing and implementing plans to deliver these objectives and commitments, meeting stakeholder expectations</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Robust ESG Governance Framework to guide decision making and actions related to the Company's ESG practices, ensure regulatory alignment and delivery of the strategy</li> <li>ESG performance and progress tracked against goals; ESG insights provided for decision-making, and internationally recognised reporting frameworks adopted for transparency, with internal assurance for data integrity, and external assurance for independent verification</li> <li>Continuous proactive engagement with key external stakeholders to respond to and consider their feedback in business decision-making</li> <li>Green financing to support the further development of sustainable urban infrastructure and a dedicated ESG Fund providing adequate resources for ESG initiatives and additional investments</li> </ul>

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Cybersecurity Risk	
Key Challenges	<ul style="list-style-type: none"> <li>Safeguarding critical systems amid the increasing cybersecurity threat</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Framework of rules and regulations, including guidelines on access control, data protection, incident response, and compliance</li> <li>Identification and management of vulnerabilities and potential security threats through automated and/or manual testing</li> <li>Ongoing monitoring, detection, and response to cybersecurity threats and incidents</li> <li>Regular updates and security patches to software and systems to address known vulnerabilities</li> <li>Management and monitoring of security risks associated with vendors, suppliers, and other external parties who can access the Company's systems and data</li> <li>Processes to prepare for, detect, and respond to cybersecurity incidents in a timely and effective manner</li> <li>Continuous education and training for employees on cybersecurity best practice</li> </ul>
Supply Chain Risk	
Key Challenges	<ul style="list-style-type: none"> <li>Managing procurements of required business critical materials, construction and services to deliver on railway extension projects and meet operating railway asset needs amidst complex geopolitical shifts and global supply chain capacity challenges</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Implement the Supply Chain Risk Management Framework</li> <li>Set and manage inventory levels based on criticality</li> <li>Monitor suppliers, in particular those in politically unstable, trade-restricted or disaster-prone areas</li> <li>Implement technical pre-qualification processes</li> <li>Manage supplier performance including through the use of proper contract forms, financial and technical assessments, and Service Level Agreements</li> <li>Periodic audit checks and continuous financial eligibility checks</li> <li>Identification and assessment of market alternatives to strengthen resilience in the supply base</li> <li>Implementation of a mechanism to monitor and ensure the delivery of materials and services to the required quality standards</li> <li>Strengthen monitoring, visibility and controls over contracting and sub-contracting arrangements for key projects</li> </ul>
Business Growth beyond Hong Kong	
Key Challenges	<ul style="list-style-type: none"> <li>Being able to continue to maintain our growth strategy in markets outside Hong Kong amidst increasing competition and a changing business environment</li> </ul>
Key Controls	<ul style="list-style-type: none"> <li>Maintain robust governance regime over subsidiaries and associates to ensure operational, financial and governance oversight</li> <li>Promote capability and competence sharing among teams across Hong Kong, subsidiaries and associates to strengthen competitiveness</li> <li>Maximise corporate branding effect and stakeholder relationships</li> <li>Regular scanning for and pursuit of suitable new business opportunities in different markets</li> <li>Regular geopolitical risk pulse check surveys to keep abreast of developments</li> </ul>

The long-term financial sustainability of the Company is continuously monitored by the Board and the Executive Committee. Despite challenges arising from evolving consumer patterns and traveller behaviours under the new normal, the Company's patronage has been steadily increasing. While our revenue in and outside of Hong Kong remains dependent to a degree on macroeconomics and consumption trends, the Group continues to implement transformation initiatives, practise prudent cost control and uphold robust financial management with a view to further improving the Group's profitability. Further, the new railway and other projects with established viable business cases may help to contribute to the Group's long-term financial sustainability.

ESG risks are identified through the ERM framework and are reviewed through a materiality assessment process. Business resilience to extreme weather has been identified as one of the key future strategic priority areas to sustain long-term business growth. Climate-related physical and transition risks and the roles of multiple interconnected stakeholders have been examined and the Company has implemented frameworks, protocols and practical response strategies at the Corporate and Business Unit/Function levels to provide effective risk control and mitigation. The Company will continue to strengthen business resilience through innovation and technology adoption, scenario planning and future design enhancements.

## Process of System Effectiveness Review

On behalf of the Executive Committee, the ERC evaluates the effectiveness of the ERM system at least annually. The review for the year ending 31 December 2025 concluded that the ERM system was overall effective. The Legal and Governance Director, who chairs the ERC, presented the ERM system effectiveness review results for the year ending 31 December 2025 to the Executive Committee, who confirmed its agreement with the review results on 12 February 2026, and to the Audit & Risk Committee on 27 February 2026, who likewise confirmed their agreement with the review results. The Audit & Risk Committee, with delegated authority from the Board, has evaluated the effectiveness of the Company's ERM system and considers it to be overall effective based on a number of review areas.

### Factors considered during the review

- Review areas suggested in the Corporate Governance Code for the Board's annual review of the risk management system
- Annual internal certification of risk management effectiveness by Department Heads and Heads of subsidiaries/associates
- Risk management of subsidiaries/associates
- Peer group engagements and interactions
- Risk management training and promotion events held in 2025



### Conclusion

The ERM system was considered overall effective for the year ended 31 December 2025.

## CONTINUOUS PROCESS IMPROVEMENT

Key initiatives undertaken in relation to the ERM system in 2025 include the following:

- The ERM Team continued to produce ERM Newsletters for dissemination to all staff focusing on topical issues in risk management, aiming to raise risk awareness and share good risk management practices.
- In September 2025, the Company launched its annual Risk Awareness Week ("RAW") event to promote risk awareness across all levels of the organisation, including a keynote seminar on the theme "Strengthening the Corporation's Resilience". The seminar was well received and was attended by about 300 department heads and senior managers. Over 2,600 participants also took part in the RAW Online Quiz Game aimed at testing their knowledge of risk awareness and principles.
- The Company has continued to demonstrate its commitment to robust governance and effective risk management across all Business Units by implementing the Three Lines Model. Pursuant to this model, Second Line activities are managed by the Legal & Governance function with its Centres of Excellence in technical, engineering, safety, quality, environment, risk, assurance and commercial disciplines. Second Line assurance activities span across all Business Units of the Company as well as critical corporate projects and initiatives. In 2025, the Company commissioned an independent advisory review of its Second Line, conducted in collaboration with an external consulting firm. The review confirmed that the Company's Second Line is operating effectively and that the Company has implemented proactive measures such as standardised assurance procedures, formalised escalation processes and enhanced coordination with other Lines. To further optimise governance, the Company is introducing a formal mandate for its Three Lines Model, exploring innovative resourcing models, and developing a comprehensive Assurance Map to provide the Board and Executives with greater visibility over risk management and assurance activities with a view to closing any gaps identified and eliminating overlaps. These initiatives underscore the Company's commitment to transparency, accountability, and continuous improvement in governance practices.
- The Company keeps abreast of the latest developments in risk management through reviews with users, reviewing a variety of global risk reports, and cross-industry experience sharing, for example, through participation in the Pan-Asia Risk & Insurance Management Association ("PARIMA") meetings.