

AUDIT COMMITTEE REPORT



The principal role of our Audit Committee is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, external audit, internal audit, risk management and internal controls

I am pleased to present the 2016 Audit Committee Report. This year, we continued to focus on improving our risk management system, in line with the new requirements on risk management and internal control compliance under the CG Code.

Chairman: Mr Patrick B. Paul (INED)

Members: Dr William K.L. Fung (INED)
Mr Andrew Brandler (Non-Executive Director)

Our Role

The principal role of our Audit Committee is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, external audit, internal audit, risk management and internal controls. The Audit Committee met four times in 2016, with senior management, the external auditor and the Group General Manager, Audit & Risk Management (ARM) in attendance by invitation. I have set out below a summary of the main activities of the Committee in 2016.

Main Activities in 2016

During the year, we conducted a special review on risk management including its evolution, framework, approach and focus for 2016. We also reviewed a special audit on the limited scope data accuracy of the Group's 2015 Corporate Responsibility and Sustainability Report, focusing on specific data points on energy consumption and carbon emissions. In addition, we also conducted the following business:

Financial Information

- Reviewed and endorsed the 2015 Annual Report and Corporate Responsibility and Sustainability Report and the annual results announcement, and the 2016 Interim Report and the interim results announcement

- Reviewed the valuations of the properties by independent valuers
- Reviewed the deferred tax position of the Group's subsidiaries

Audit

- Considered audit plans and reports from the external auditor on its audit and its review of the financial statements including accounting policies and areas of judgement and its comments on control matters
- Reviewed and approved the external auditor's audit and non-audit fees for 2015 as described below, assessed the performance and endorsed the reappointment of KPMG as the Company's independent auditor for 2016
- Considered internal audit reports submitted by ARM
- Reviewed and approved the internal audit plan for 2017 as well as the 3-year audit plan
- Reviewed and discussed the 2016 draft "long-form" audit report on the financial statements for the 2016 Annual Report

Financial reporting system, risk management and internal control systems

- Reviewed all connected transactions and related party transactions including but not limited to the continuing connected transactions of renewal of tenancy agreements of the office premises and the master agreement of carpet purchases
- Reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions
- Reviewed and endorsed semi-annually the Group Risk Management Report detailing the principal risks facing the Group, mitigation controls and the adequacy and effectiveness of risk management and internal control systems
- Considered summaries of the internal representation letters from business operations and approved the representation letters to the external auditor before issuance of the 2015 Annual Report and 2016 Interim Report
- Reviewed and discussed the upcoming new accounting standard for leased assets

Others

- Reviewed and confirmed the terms of reference of the Committee with no change
- Reviewed reported speak up cases and investigations
- Reviewed the revamped Code of Conduct and the renamed Speak Up Policy

As the Chairman of the Audit Committee, I met separately with the Group General Manager, ARM and also met with the external auditor without management being present.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2016 to be effective and adequate. Issues raised by the internal and external auditors during 2016 have been, or are being addressed, by management and the Audit Committee advised to the Board that there are no issues required to be raised to shareholders.

In March 2017, the Audit Committee reviewed and endorsed this Annual Report, the Corporate Responsibility and Sustainability Report, which is posted on the website,¹⁴ and the annual results announcement, and recommended the same to the Board for approval.

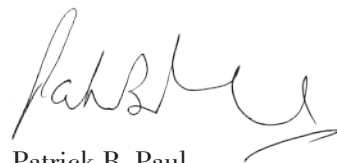
Ensuring the Independence of our External Auditor

The Group's external auditor is KPMG. We believe the independence of our external auditor is crucial to the effectiveness of our corporate governance and should not be compromised. The issue of auditor independence is reviewed annually. In engaging the external auditor for non-audit work, we always take into account the guideline adopted to monitor the amount of non-audit work given to the external auditor. In 2016, apart from audit work, the Company also awarded non-audit work to KPMG including taxation and other services. In our first meeting in 2017, the Audit Committee reviewed the nature of non-audit work performed by KPMG and confirmed that it gave rise to no impairment of actual or perceived independence or objectivity of the audit work itself. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for 2017 for Shareholders' approval at the 2017 Annual General Meeting.

A summary of fees for audit and non-audit services to KPMG for the financial years ended 31 December 2016 and 2015 is as follows:

Nature of Services	2016 HK\$m	2015 HK\$m
Audit Services	10	10
Non-audit Services Taxation and other services	4	3

On behalf of the Audit Committee



Patrick B. Paul
Chairman of the Audit Committee
20 March 2017