

Audit Committee Report



The Audit Committee considers the overall financial and operating controls for the Group during 2014 to be effective, sound and sufficient.

ROLE AND COMPOSITION

The Audit Committee's primary responsibility is in reviewing financial reporting, internal controls, risk management, and internal and external audit. The Audit Committee met four times in 2014, with senior management, the external auditor and the Head of Audit & Risk Management ("ARM") in attendance by invitation. I have set out below a summary of the main activities of the Committee in 2014.

Chairman: Mr Patrick B. Paul (INED), a Fellow of the Institute of Chartered Accountants in England and Wales

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

Secretary: Company Secretary

MAIN ACTIVITIES IN 2014

During the year in addition to the usual business set out below, the Audit Committee reviewed the function of the Company's Tax Department and the Group's tax structures for the different businesses. We also adopted guidelines on engagement of the external auditor for non-audit work.

- reviewed and endorsed the Annual Report for the year ended 31 December 2013 and the annual results announcement, and the Interim Report for the six months ended 30 June 2014 and the interim results announcement;
- 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 external auditor's audit and non-audit fees for 2013 as described below, assessed the performance of the external auditor and endorsed the reappointment of KPMG as the Company's independent auditor for 2014;

- considered summaries of general representation letters from business operations and approved the representation letter from external auditor before issuance of 2013 Annual Report and 2014 Interim Report;
- reviewed and endorsed the adequacy and effectiveness of risk management and internal control systems;
- reviewed and approved the structure, adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting functions;
- considered internal audit reports submitted by ARM;
- reviewed and approved the internal audit plan for 2015;
- reviewed connected transactions and related party transactions;
- reviewed the valuations of all assets;
- reviewed the approved accounting treatment relating to the Company's interests in associates and in new projects and residences for sale;

- reviewed the Group Risk Register and discussed the enhancement procedures;
- reviewed reported whistleblowing cases and incident reporting cases; and
- reviewed and discussed the Group's risk management framework.

During our first meeting in 2015, following a review of the risk management processes by the Group Risk Committee and the adoption of a more structured regular reporting approach in 2014, we also started reviewing a semi-annual Group Risk Management Report which we endorsed to the Board for approval. We also started formalising the review of the adequacy of resources of the ARM team.

As the Chairman of the Audit Committee, I also met separately with the Group General Manager, ARM and the Audit Committee met with external auditor without management being present during the year to discuss 2014 issues.

Based on the reports from Group General Manager, ARM and the external auditor, the Audit Committee considers the overall financial and operating controls for the Group during 2014 to be effective, sound and sufficient. Issues raised by the internal and external auditors during 2014 have been, or are being addressed, by management and the Audit Committee recommended to the Board that there are no issues required to be raised to shareholders.

In respect of this Annual Report, including the Corporate Governance Report, Sustainability Report, the Directors' Report and Financial Statements for the year ended 31 December 2014 and the annual results announcement, after review and discussion, in March 2015, the Audit Committee endorsed and recommended the same to the Board for approval.

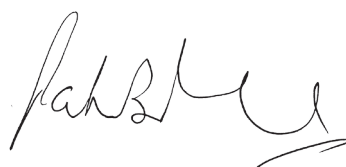
ENSURING THE INDEPENDENCE OF OUR EXTERNAL AUDITOR

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 taken very seriously and is reviewed annually. In 2014, apart from audit work, the Company also awarded non-audit work to our independent auditor including due diligence, taxation and other services. As mentioned above, a guideline was adopted to ensure monitoring of the amount of non-audit work given to the external auditor. The Audit Committee reviewed the nature of non-audit work performed by the external auditor and confirmed that there is no adverse effect on actual or perceived independence or objectivity of the audit work itself.

A summary of fees for audit and non-audit services to the Company's independent auditor, KPMG, for the financial years ended 31 December 2014 and 2013 is as follows:

Nature of Services	2014 HK\$m	2013 HK\$m
Audit services	10	10
Non-audit services		
Taxation and other services	2	2
Due diligence services	1	3

On behalf of the Audit Committee



Patrick B. Paul

Chairman of the Audit Committee
20 March 2015