

# AUDIT COMMITTEE REPORT



The Audit Committee considers the overall financial and operating controls, risk management and internal control systems for the Group during 2015 to be effective and adequate

## Focus 2015

We continue to put emphasis on improving our risk management system, in line with the new requirements on risk management and internal control compliance under the CG Code.

## Role and Composition

The Audit Committee's principal role 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 2015, 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 2015.

**Chairman:** Mr Patrick B. Paul (INED)

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

## Main Activities in 2015

During the year, in addition to the usual business set out below, we conducted a special review on cyber security including our current measures, policies and procedures and assess its risks to the Group. We also reviewed the treasury management and guidelines and the five key risks exposures, which are liquidity, refinancing, foreign exchange, interest rate and counterparties, and their mitigating actions taken. In addition, we

- ✓ reviewed and endorsed the Annual Report for the year ended 31 December 2014 and the annual results announcement, and the Interim Report for the six months ended 30 June 2015 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 2014 as described below, assessed the performance of the external auditor and endorsed the reappointment of KPMG as the Company's independent auditor for 2015;
- ✓ considered summaries of general representation letters from business operations and approved the representation letter from external auditor before issuance of 2014 Annual Report and 2015 Interim Report;
- ✓ reviewed and endorsed 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 semi-annually;

- ✓ 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;
- ✓ considered internal audit reports submitted by ARM;
- ✓ reviewed and approved the internal audit plan for 2016;
- ✓ reviewed connected transactions and related party transactions;
- ✓ reviewed the valuations of all assets;
- ✓ reviewed the Group Risk Register and discussed the enhancement procedures;
- ✓ reviewed reported whistleblowing cases and incident reporting cases;
- ✓ reviewed, discussed and refined the Group's risk management framework processes;
- ✓ reviewed the deferred tax position of the Group's subsidiaries;
- ✓ reviewed and endorsed the revised terms of reference of the Committee to incorporate the enhanced risk management process which already put into practice; and
- ✓ discussed the new requirements for audits of the financial statements for 2016 Annual Report.

As the Chairman of the Audit Committee, I also met separately with the Group General Manager, ARM and the Audit Committee met with the external auditor without management being present during the year to discuss 2015 issues.

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 2015 to be effective and adequate. Issues raised by the internal and external auditors during 2015 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, Corporate Responsibility and Sustainability Report, the Directors' Report and Financial Statements for the year ended 31 December 2015 and the annual results announcement, after review and discussion, in March 2016, the Audit Committee endorsed 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 taken very seriously and 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 2015, apart from audit work, the Company also awarded non-audit work to our independent auditor including, taxation and other services. In our first meeting 2016, 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. The Committee has recommended to the Board the re-appointment of KPMG as independent auditor for 2016 for Shareholders' approval at the 2016 Annual General Meeting.

A summary of fees for audit and non-audit services to the Group's independent auditor, KPMG, for the financial years ended 31 December 2015 and 2014 is as follows:

Nature of Services	2015 HK\$m	2014 HK\$m
Audit Services	10	10
Non-audit Services		
Taxation and other services	3	2
Due diligence services	–	1

On behalf of the Audit Committee



Patrick B. Paul  
Chairman of the Audit Committee  
16 March 2016