



**新鴻基有限公司**

**SUN HUNG KAI & CO. LIMITED**

**TERMS OF REFERENCE OF AUDIT COMMITTEE (THE “COMMITTEE”)**

**1 Membership**

- (a) The Committee shall be appointed by the board of directors of the Company (the “Board” or “Directors”) from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, a majority of whom should be Independent Non-Executive Directors (“INEDs”). At least one member must be an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Where there are only three INEDs as members of the Board, all of them shall be appointed as members of the Committee.
- (b) The Board may at any time remove, suspend or replace any member of the Committee at its option by resolution whereupon the Committee should consist of the remaining or replaced members of the Committee.
- (c) The Chairman of the Committee shall be elected by the Board from amongst the INEDs.
- (d) The Company Secretary of the Company shall be the Secretary of the Committee.

**2 Frequency and Proceedings of Meetings**

- (a) Meetings shall be held not less than three times a year. The external auditor or any member of the Committee may request a meeting if they consider that one is necessary and upon receipt of such a request, the Secretary of the Committee shall convene such a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs.
- (b) A quorum of a meeting shall be two members of the Committee, both of whom must be INEDs. If the Chairman of the Committee is not present at any meeting of the Committee, the members in attendance may appoint a chairman of the meeting.
- (c) A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held and may consist of several documents in like form each signed by one or more of the members of the Committee.
- (d) Save as indicated herein, the proceedings of the Committee shall be governed by the Company’s Articles of Association.



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### **3 Attendance at Meetings**

- (a) The Chairman of the Board, the Group Chief Financial Officer and the Head of Internal Audit (“IA”) shall normally be invited to attend the Committee meetings. A representative of the external auditor shall be invited to attend the Committee meetings where appropriate. Other Board/staff members who have specific responsibility for an area under review may also be invited to attend.
- (b) The Secretary of the Committee shall attend all meetings.
- (c) The Committee may hold separate private meeting(s) with internal auditor and/or the external auditor, with no Executive Directors or senior management present whenever they think fit and appropriate.

### **4 Authority**

- (a) The Committee is authorized by the Board to operate in accordance with its terms of reference. It is authorized to seek any information it requires from any employee or Executive Director and all employees are directed to co-operate with any request made by the Committee.
- (b) The Committee shall report to the Board any suspected frauds or irregularities, failures of internal controls or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
- (c) The Committee is authorized by the Board, and at the reasonable expense of the Company, to obtain reasonable outside legal or other independent professional advice but only in accordance with the Company’s policy for Directors to seek independent professional advice.
- (d) The Head of IA shall report to the Committee in the manner specified by the Committee.
- (e) Where the Board disagrees with the Committee’s view on the selection, appointment, resignation or dismissal of the external auditor, the Board should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

### **5 Responsibilities and Duties**

The overall role of the Committee shall be to assist the Board in its oversight of the completeness, accuracy and fairness of the financial statements of the Company, of the adequacy of internal control and risk management systems, of the independence of the external auditor and of the performance of the Company’s internal audit and compliance function.





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The Committee should be provided with sufficient resources to perform its duties.

The duties of the Committee shall be:

Relationship with external auditor

- (a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) to consider the nature and scope of each year's audit, including the engagement letter and audit plan submitted by the external auditor, and to discuss the same and the reporting obligations with the auditor before the audit commences. The Committee's review will include obtaining an understanding from the external auditor of the factors considered by them in determining their audit scope and how this interacts with the activities of the internal audit and compliance function for the effectiveness of the audit process in accordance with applicable standard;
- (c) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (d) to review and monitor the external auditor's independence and objectivity. In this connection, the Committee shall:
  - (i) seek from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;
  - (ii) develop and recommend policy on engaging the external auditor to supply non-audit services and to report to the Board, identify and make recommendations on any matters where action or improvement is needed;
  - (iii) conduct annual review of all non-audit services performed by the external auditor and the related fee levels, and to ensure that such services do not impair the independence of the external auditor; and
  - (iv) review the policies on hiring employees or former employees of the external auditor and consider whether as a result of such any subsequent hiring, there has been or appears to be any impairment of the auditor's judgment or independence for the audit;



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## Review of financial information of the Company

- (e) to monitor integrity of the Company's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained therein. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards;
  - (vi) compliance with the Listing Rules, regulatory and legal requirements in relation to financial reporting; and
  - (vii) any material off-balance sheet arrangements and obligations;
- (f) regarding (e) above:
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external auditor; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff person responsible for the accounting and financial reporting function, compliance officer, Head of IA or the external auditor;

## Oversight of the Company's financial reporting system, risk management and internal control procedures

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- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) to discuss the risk management and internal control systems with management and scrutinise whether management has performed its duty to have an effective internal control system including the adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;



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- (i) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (j) to promote coordination between the IA and external auditor, and to check whether the IA function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness, including a review of the annual audit plan of the IA;
- (k) to review the Group's financial and accounting policies and practices;
- (l) to discuss any problems and reservations arising from the interim and annual audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary) and to assist in the resolution of any disagreements or difference of views between the external auditor and management;
- (m) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action;

Others

- (p) to report to the Board on the above matters;
- (q) to recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee; and
- (r) to consider other topics, as defined by the Board.

## **6 Reporting Procedure**

Copies of the minutes of meetings/written resolutions of the Committee shall be provided to the Board at its meetings.





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## **7 Availability and Update of the Terms of Reference**

The terms of reference of the Committee shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. Listing Rules) in Hong Kong. These terms of reference shall be made available to the public by including them on both the websites of the Stock Exchange and the Company.

*(Updated as of 24 November 2016)*

