

Sun Hung Kai Properties Limited (the “Company”)

Terms of Reference for Audit Committee

Functions and Objectives

The audit committee (the “**Committee**”) is appointed by the board of directors of the Company (the “**Board**”) with a view to assist the Board in overseeing and reviewing:

- the effectiveness of the Company’s internal control, risk management system and regulatory compliance;
- the balance, transparency and integrity of the Company’s financial statements and the application of financial reporting principles;
- the relationship with the external auditors and its independence assessment; and
- the effectiveness of the Company’s internal audit function.

Composition

1. The Committee must comprise non-executive directors only. The Committee must also comprise at least three members, with the majority being independent non-executive directors.
2. At least one of the independent non-executive directors serving as a member of the Committee must possess appropriate accounting professional qualifications or accounting or related financial management expertise.
3. The Committee must be chaired by an independent non-executive director.
4. Any former partner of the Company’s existing auditing firm is precluded to be a member of the Committee for a period of one year commencing on the date of his ceasing to be a partner of the firm or to have any financial interest in the firm (whichever is later).
5. Unless it is agreed otherwise, the Company Secretary of the Company should assume the role of Secretary for the Committee.

Proceedings and Records of Meetings

1. The meetings and proceedings of the Committee are governed by the provisions of the Articles of Association of the Company for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by the regulations imposed by the Board.
2. Two members shall form a quorum for a meeting.
3. The Committee may invite such other persons (e.g. the CEO, head of internal audit and external audit engagement partner) to its meetings as it deems necessary. Other Board members shall also have the right of attendance.

4. Meetings shall be held not less than 2 times a year. Special meetings may be convened as required. The Secretary of the Committee will convene a meeting on receipt of a request by the external or internal auditors.
5. The Secretary of the Committee shall circulate the meeting agenda and supporting documentation to the Committee members a reasonable period in advance of each meeting.
6. Full minutes of the Committee should be kept by the Secretary of the Committee.
7. The draft and final versions of the minutes of the Committee meetings should be sent to all members for their comment and records respectively within a reasonable time after each meeting.
8. The chairman of the Committee or another member of the Committee shall attend the Board meeting at which the financial statements are approved.
9. The Committee will meet with the external auditors at least once a year without executive Board members present.

Authority

The Board authorises the Committee:

1. to perform activities within the scope of these terms of reference;
2. to engage independent counsel and other independent professional advisers as it deems necessary to carry out its duties; and
3. to obtain information required by Committee members in pursuit of their duties, and have access to members of management and other employees for such purpose.

Duties

The authority of the Committee is derived from the Board, therefore the Committee is obliged to report to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so. The duties of the Committee are as follows:

1. ***Internal Control, Risk Management System and Regulatory Compliance***
 - 1.1 to review the Company's financial controls, internal control and risk management systems;
 - 1.2 to discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
 - 1.3 to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

- 1.4 to review the group's financial and accounting policies and practices;
- 1.5 to review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response;
- 1.6 to ensure that the Board provides a timely response to the issues raised in the external auditors' management letter;
- 1.7 to report to the Board on the matters set out in the code provision C.3 in the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules); and
- 1.8 to consider other topics as defined by the Board.

2. *Review of Financial Information*

2.1 to monitor the balance, transparency and integrity of the Company's financial statements, annual reports and accounts, and half-yearly reports by ensuring that appropriate accounting principles, practices and reporting standards are followed, and to review significant financial reporting judgments contained therein, with particular focus on:

- any changes in accounting policies and practices;
- major judgmental areas;
- significant adjustments resulting from audit;
- the going concern assumptions and any qualifications;
- compliance with accounting standards; and
- compliance with the Listing Rules and other legal requirements in relation to financial reporting.

2.2 for the purposes of 2.1 above:

- Committee members must liaise with Board members, senior management and external auditors, and must meet with the external auditors at least once a year; and
- the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or external auditors.

3. *Relationship with the External Auditors*

3.1 to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and any questions of resignation or dismissal of that auditors;

- 3.2 to review and approve the remuneration and terms of engagement of the external auditors;
- 3.3 to review and monitor the external auditors' independence and objectivity, and the effectiveness of the audit process in accordance with applicable standard;
- 3.4 to review the external auditors' proposed audit scope and approach and reporting obligations before the audit commences;
- 3.5 to discuss with the external auditors any audit problems encountered in the audit work and the appropriateness of the accounting policies applied;
- 3.6 to ensure that significant findings and recommendations made by the external auditors and management's proposed responses are received, discussed and appropriately acted on; and
- 3.7 to develop and implement policy on the engagement of the external auditors to supply non-audit services, if any, to ensure that provisions of such services would not impair the independency and objectivity of the external auditors. For this purpose, external auditors shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally.

4. *Internal Audit*

- 4.1 to ensure co-ordination between internal and external auditors;
- 4.2 to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- 4.3 to review and monitor the effectiveness of the internal audit function; and
- 4.4 to ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and appropriately acted on.

Reporting responsibilities

The Committee should regularly update the Board about its activities and any matters that may significantly impact on the financial condition or affairs of the business and make appropriate recommendations.