

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 assisting 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 auditor 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 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 audit firm is precluded to be a member of the Committee for a period of one year from 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of the Company for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by the regulations imposed by the Board.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 Managing Director, Chief Financial Officer, head of accounting team, head of internal audit team 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 auditor.
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 auditor 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/or 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. ***Oversight of the Company's Financial Reporting System and Internal Control Procedures***
 - 1.1 to review the Company's financial controls, internal control and risk management systems;
 - 1.2 to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

- 1.3 to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 1.4 where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- 1.5 to review the Group's financial and accounting policies and practices;
- 1.6 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;
- 1.7 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 1.8 to review the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal controls 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;
- 1.9 to report to the Board on the matters in the code provision under C.3 in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"); and
- 1.10 to consider other topics, as defined by the Board.

2. *Review of the Company's Financial Information*

- 2.1 to monitor integrity of the Company's financial statements and annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly 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 legal requirements in relation to financial reporting.

2.2 regarding 2.1 above:

- Committee members should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditor; and
- 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 responsible for the accounting and financial reporting function, compliance officer or auditor.

3. *Relationship with the Company's Auditor*

- 3.1 to be primarily responsible for making recommendations to the Board on the appointment, reappointment 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;
- 3.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 3.3 to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed; and
- 3.4 to act as the key representative body for overseeing the Company's relations with the external auditor.

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.