

# SHIMAO SERVICES HOLDINGS LIMITED

## 世茂服務控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 873 )

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### 1. Membership

- 1.1 The Audit Committee (the “**Committee**”) of Shimao Services Holdings Limited (the “**Company**”) shall consist of not less than three members appointed by the board of directors of the Company (the “**Board**”), all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors. At least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- 1.2 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period two years from the date of the person ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.
- 1.3 The chairman of the Committee shall be appointed by the Board and must be an independent non-executive director.

#### 2. Frequency and proceedings of meetings

- 2.1 The Committee should meet at least twice every year. Additional meetings should be held as and when the work of the Committee demands.
- 2.2 The chairman of the Committee may convene additional meetings at his/her discretion.
- 2.3 The quorum of a meeting shall be two members of the Committee.
- 2.4 Proceedings of meetings of the Committee shall be governed by the provisions of Article 140 of the articles of association of the Company.

#### 3. Authority

- 3.1 The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

- 3.2 The Committee shall report to the Board any suspected frauds and irregularities, failures of risk management and internal control systems 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.
- 3.3 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee will arrange for the Corporate Governance Report as contained in the Annual Report to include an explanation of the Committee's recommendation and also the reasons why the Board has taken a different view.
- 3.4 The Committee is to be provided with sufficient resources to perform its duties.

#### **4. Responsibility**

- 4.1 The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor as regards their duties relating to financial and other reporting, risk management and internal control systems, external and internal audits and such other matters as the Board determines from time to time.
- 4.2 The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the financial reporting process, risk management and internal control systems of the Company and its subsidiaries (the "**Group**"), and as to the adequacy of the external and internal audits.

#### **5. Duties, powers and functions**

The Committee is to:

- 5.1 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;
- 5.2 review and monitor the external auditor's independence, objectivity and 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;
- 5.3 develop and implement policy on engaging an external auditor to supply non-audit services and to report to the Board, identifying and make recommendations on any matters where action or improvement is needed;
- 5.4 monitor integrity of the Company's financial statements and annual report and accounts, interim report and quarterly report (if applicable), and to review significant financial reporting judgements contained in them. 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 the audit;
- (iv) the going concern assumptions and any qualifications;
- (v) compliance with accounting and auditing standards; and
- (vi) compliance with the Listing Rules and legal requirements in relation to the financial reporting;

5.5 with regard to paragraph 5.4 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 responsible for the accounting and financial reporting function, compliance officer or auditor;

5.6 review with the Group's management, external auditor and internal auditor, the adequacy of the Company's risk management and internal control systems, including financial, operational and compliance controls;

5.7 discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

5.8 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;

5.9 review and monitor the scope, effectiveness and results of internal audit function, and to ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;

5.10 review the Group's financial and accounting policies and practices;

5.11 discuss with the external auditor any recommendations arising from the audit (if necessary in the absence of management); and to review the draft management letter of the external auditor, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response to the points raised;

- 5.12 ensure that the Board will provide a timely response to issues raised in the external auditor's management letter;
- 5.13 evaluate the level of cooperation provided by the Company to the external auditor, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditor to the Group's needs; inquire of the external auditor as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;
- 5.14 obtain from the external auditor annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and the requirements regarding rotation of audit partners and staff;
- 5.15 the engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, the prior approval of the Committee is required;
- 5.16 agree with the Board the Company's policy on hiring employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether there has been or appears to be any impairment of the auditor's judgment or independence for the audit;
- 5.17 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 is to ensure proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow up action;
- 5.18 act as the key representative body for overseeing the Company's relations with the external auditor;
- 5.19 report to the Board on above matters; and
- 5.20 consider other topics, as defined by the Board.

## **6. Reporting Procedures**

The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report the findings and recommendations of the Committee to the Board. At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year.