

SHEUNG YUE GROUP HOLDINGS LIMITED

上諭集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1633)

AUDIT COMMITTEE TERMS OF REFERENCE

Constitution

1. The board of directors (the “**Board**”) of Sheung Yue Group Holdings Limited (the “**Company**”) which together with its subsidiaries, the “**Group**”) has established an Audit Committee (the “**Committee**”) with authority, responsibility, and specific duties as described below.

Membership and Quorum

2. The Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom shall be independent non-executive directors of the Company and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). A quorum shall be two members.
3. The chairman of the Committee must be an independent non-executive director of the Company and shall be appointed by the Board.
4. A former partner of the Group’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year from the date of his ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,

whichever is later.

Authority and Duties

5. The authority of the Committee is derived from the Board, therefore the Committee is obliged to report to the Board on its decisions or recommendations.
6. The Committee is authorised by the Board to investigate any activity within the scope of these terms of reference and the Group shall provide the Committee with sufficient resources to perform its duties. It is authorised to seek any information it requires from any employee of the Group and members of the Board in order to perform its duties and all employees of the Group and members of the Board are directed to co-operate with any request made by the Committee within the scope of these terms of reference.
7. The Committee has the authority to exercise the following powers:
 - (a) to monitor whether the Group's management has, in the performance of its duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time laid down by the Board or a committee thereof) and report to the Board should such infringements are of sufficient importance to warrant the attention of the Board;
 - (b) to investigate all suspected fraudulent acts involving the Group and report to the Board should such infringement are of sufficient importance to warrant the attention of the Board and request the management of the Group to make investigation and submit reports;
 - (c) to review the Group's risk management and internal control systems;
 - (d) to review the performance of the Group's senior employees in the accounting and internal audit department;
 - (e) to make recommendations to the Board for the improvement of the Group's risk management and internal control systems;
 - (f) to request the Board to convene a shareholders' meeting for the purposes of revoking the appointment of any director and to dismiss any employee if there is evidence showing that the relevant director and/or employee has failed to discharge his/her duties properly;

- (g) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group;
- (h) to perform corporate governance functions; and
- (i) subject to prior approval by the Board, to obtain outside legal or other independent professional advice and to secure their attendance in the Committee's meetings where necessary.

8. The Committee shall have the following duties:

Relationship with the Group's auditors

- (a) 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;
- (b) to review and monitor the independence and objectivity of the external auditor. The Committee shall:
 - i. consider all relationship between the Group and the audit firm (including non-audit services);
 - ii. obtain from the external auditor annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
 - iii. meet with the external auditor, at least annually in the absence of the management of the Group, to discuss matters relating to the audit fees, any issues arising from the audit and any other matters the external auditors or the Committee may wish to raise;

- (c) to review and monitor the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditors the nature and the scope of the audit and reporting obligations before the commencement of the audit;
- (d) to develop and implement policy on engaging an external auditor to supply non-audit services. The Committee should ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. 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;
- (e) to act as the key representative body for overseeing the Group's relations with the external auditor;

Review of financial information of the Group

- (f) to monitor the integrity of the Group's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing the Group's reports and accounts before submission to the Board, the Committee shall 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 standards;

- vi. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (g) Regarding (f) above,
- i. members of the Committee shall liaise with the Board and senior management of the Group and the Committee must meet at least twice a year with the Group's auditors;
 - ii. the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Group's financial reporting system, risk management and internal control systems

- (h) to review the Group's financial controls, risk management and internal control systems;
- (i) to discuss the risk management and internal control systems with management of the Group to ensure that the management of the Group has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function and to rectify any weaknesses that may be revealed from time to time;
- (j) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on the Committee's own initiative and the Group's management's response to these findings;
- (k) 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 Group, and to review and monitor its effectiveness;

- (l) to review the Group's financial and accounting policies and practices;
- (m) to review the external auditor's management letter, any material queries raised by the auditor to the management of the Group about accounting records, financial accounts or systems of control and management response;
- (n) to ensure the Board will provide a timely response to issues raised in the external auditors' management letter;
- (o) to report to the Board on the matters set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules;

Corporate Governance Functions

- (p) to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board;
- (q) to review and monitor the training and continuous professional development of directors and senior management;
- (r) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- (s) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (t) to review the Group's compliance with the corporate governance code as set out in Appendix 14 of the Listing Rules and disclosure in the corporate governance report.

Other Duties

- (u) to review arrangements employees of the Group 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;

- (v) to consider other topics and review other documents as may be reasonably requested by the Board from time to time;

Consultation

- 9. The Committee shall, at the expenses of the Group, have access to professional advice if considered necessary.

Secretary

- 10. The secretary of the Company (or his/her delegate) shall be the secretary of the Committee (the “**Secretary**”).

Meetings

- 11. The Committee shall meet as and when necessary or as requested by any Committee member. The Committee shall meet at least twice a year to consider the budget, revised budget and yearly, half yearly and quarterly report (if any) prepared by the Board. However, at least once a year the Committee shall meet with the external auditors in the absence of any executive director of the Company and other staff member of the Group unless otherwise requested by the Committee.
- 12. The Committee shall meet as and when necessary or as requested by any Committee member.
- 13. The financial controller, the head of internal audit of the Company and a representative of the external auditors shall normally attend meetings of the Committee.
- 14. 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.

Disagreement as to appointment of external auditors

15. In the event the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee shall provide a statement explaining its recommendations to the Group and the reasons why the Board has taken a different view for inclusion in the Corporate Governance Report issued by the Group in accordance with Appendix 14 of the Listing Rules.

Reporting Procedures

16. Minutes of each Committee's meeting should be kept by the Secretary and should be open for inspection at any reasonable time on reasonable notice by any director. Draft and final versions of minutes of the meetings shall be sent to all Committee members for their comments and records within a reasonable time after such meeting.
17. 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 to the Board on the findings and recommendations of the Committee.

Adopted by the Board on 24 October 2016.