



Poly Property Group Co., Limited

保利置業集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00119)

TERMS OF REFERENCE OF AUDIT COMMITTEE

Composition, Quorum and Meetings

1. The Audit Committee (the “Committee”) shall consist of not less than three members appointed by the board of directors (the “Board”) of Poly Property Group Co., Limited (the “Company”, together with its subsidiaries, the “Group”) from time to time, all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors under the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited (the “Listing Rules”), at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.
2. The chairman of the Committee (the “Chairman”) who must be an independent non-executive director shall be appointed by the Board.
3. The Committee shall meet at least twice every year. Additional meetings shall be held as the work of the Committee demands.
4. The Chairman may convene additional meetings at his/her discretion.
5. The quorum of a meeting shall be two members of the Committee.

Secretary

6. The company secretary of the Company shall act as secretary of the Committee.

Authority

7. 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 authorised 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.
8. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control 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.
9. 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 in the annual report to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
10. The Committee is authorised by the Board under the terms of reference to assess the risk management system of the Group with the co-operation of all managerial staff and shall report and make recommendations to the Board of its findings of any material risk or deficiency in risk management system.
11. The Committee is to be provided with sufficient resources to discharge its duties.

Responsibility

12. 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, external audit and such other matters as the Board determines from time to time.

13. 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 internal controls of the Company and its subsidiaries (the “Group”), and as to the adequacy of the external and internal audits.
14. The Committee is to assist the Board in carrying out the following supervisory duties:
 - (a) to oversee the design, implementation and monitoring of the risk management system carried out by the management on an ongoing basis; and
 - (b) to analyse and independently assess whether the system in managing risks is sufficient, efficient and effective.

Duties, powers and functions

15. The Committee is to:
 - (a) 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) 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;
 - (c) 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;

- (d) monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports (if applicable), 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:
 - (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; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (e) with regard to (d) 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 external auditor; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must 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.
- (f) review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company' risk management and internal control systems;
- (g) discuss the risk management and internal control systems with management to ensure that management 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 Company's accounting and financial reporting function;

- (h) 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;
 - (i) 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;
 - (j) review the Group's financial and accounting policies and practices;
 - (k) review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
 - (l) ensure that the Board will provide a timely response to issues raised in the external auditor's management letter;
 - (m) report to the Board on above matters and in the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules); and
 - (n) consider other topics, as requested by the Board.
16. The Committee shall regularly review the whistleblowing policy and mechanism to improve its effectiveness. The Committee must review the arrangements the Company has established to allow its employees to confidentially raise concerns about possible improprieties in financial reporting, internal controls or other aspects. The Committee should ensure that appropriate arrangements are in place to enable the Company to conduct fair and independent investigations into such matters and take appropriate action.
17. The Committee shall monitor and review the process of the risk management and advise to the Board about the effectiveness of and improvements to be made to the existing risk management system.
18. The Committee shall provide recommendations to the management on risk management and set up procedures to unveil, assess and manage material risk factors; and ensure management discharges its responsibility to implement an effective risk management system; and

19. The Committee shall review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding risk management system and any relevant statement by the directors to be included in the annual accounts prior to endorsement by the Board.

Reporting Procedures

20. The Committees should report to the Board on a regular basis. Full minutes of the Committee meetings should be kept by the secretary of the Committee. Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records, within a reasonable time after the meeting. At the next meeting of the Board following a meeting of the Committee, the Chairman shall report to the Board on the findings and recommendations of the Committee. At least annually, the Committee should report to the Board which addresses the work and findings of the Committee during the year.

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