

SH GROUP (HOLDINGS) LIMITED
順興集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1637)

**TERMS OF REFERENCE OF
THE AUDIT COMMITTEE**

(adopted on 6 December 2016)

SH GROUP (HOLDINGS) LIMITED

Terms of Reference of the Audit Committee (adopted on 6 December 2016)

Formation

1. The audit committee (the “**Committee**”) of SH Group (Holdings) Limited (the “**Company**”) was formed pursuant to the resolution of the board of directors of the Company (the “**Board**”) passed on 6 December 2016.

Composition 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. The quorum for a meeting of the Committee shall be two members, one of whom must be an independent non-executive director.
3. At least one of the Committee members shall be an independent non-executive director of the Company with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.10(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).
4. The chairman of the Committee shall be appointed by the Board at the date of appointment and must be an independent non-executive director of the Company.
5. The appointment of the members of the Committee may be revoked, replaced or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee. An appointment of a member of the Committee shall be automatically revoked if such member ceases to be a member of the Board.
6. A former partner of the Company’s existing external auditing firm should be prohibited from acting as a Committee member for a period of 1 year from the date of his/her ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.
7. The company secretary of the Company shall be the secretary of the Committee. The secretary of the Committee or in his/her absence, his/her representative or any one member of the Committee, shall be the secretary of the meetings of the Committee.
8. The term of office of a member of the Committee shall be determined by the Board.

Attendance at meetings

9. Attendees shall normally include the Committee's members, and upon the invitation from the Committee, the head of internal audit (where an internal audit function exists), representative(s) of the external auditors and those with meaningful input to the Committee's activities. However, at least once a year the Committee shall meet with the external and internal auditors (if any) without executive members of the Board present.
10. Only the members of the Committee can vote in the meeting.
11. Members of the Committee may attend meetings of the Committee either in person or through other electronic means of communication, including telephone or videoconferencing. The members of the Committee can attend the meeting via telephone or any similar communication device (all persons attending such meeting should be able to hear from such member via such communication device).

Frequency and proceedings of meetings

12. The Committee shall hold at least two regular meetings in a year to review and discuss the interim and annual financial statements of the Company. Additional meetings of the Committee may be held as and when requested.
13. The Committee shall meet with the external auditors at least twice a year. The external auditors may request a meeting if they consider necessary.
14. Full minutes of Committee meetings should be kept by a duly appointed secretary of the Committee and be available for review by the Directors. 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.
15. The provisions of the articles of association of the Company regulating the meetings and proceedings of the meetings of the directors of the Company so far as the same are applicable and not inconsistent with the provisions of these terms of reference shall mutatis mutandis apply to regulate the meetings and the proceedings of the meetings of the Committee.

Annual General Meeting

16. The chairman of the Committee or (if absent) the other member of the Committee (must be an independent non-executive director) should attend the annual general meeting of the Company, handle the shareholders' enquiry on the activities and responsibilities related to the Committee.

Authority

17. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
18. The Committee is authorised by the Board to obtain outside legal or other independent professional advice at the Company's expense and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Committee shall be provided with sufficient resources to discharge its duties.
19. The Committee is authorised by the Board to request the independent compliance department of the Company for information or report on non-compliance issues of the Company.
20. The Committee is authorised by the Board to inspect all financial accounts, reports and records and are eligible to request the management to provide any figures related to the financial status.

Duties

21. The duties of the Committee shall be:
 - (a) to be primarily responsible for making recommendation 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 resignation or dismissal of that auditor;
 - (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;

- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, “external auditor” 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. The Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (d) to monitor integrity of financial statements of the Company and the Company’s 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 this regard, in reviewing the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly 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 audit;
 - (iv) the going concern assumptions and qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (e) in regard to (d) above:-
 - (i) members of the Committee must liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company’s auditors; and

Remark: “Senior management” refers to the same persons referred to in the Company’s annual report. It is the responsibility of the directors of the Company to determine which individual or individuals constitute senior management. Senior management may include directors of subsidiaries, head of divisions, departments or other operating units within the group as, in the opinion of the Company’s directors, is appropriate.

- (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 auditors;
- (f) to 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's risk management and internal control systems;
- (g) to 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 programs and budget of the Company's accounting and financial reporting function;
- (h) to consider any findings of major investigations of risk management and internal control matters as delegated by the Board or on its own initiative and management's response;
- (i) to discuss problems and reservations arising from the interim and annual audits, and any matters the auditor(s) may wish to discuss (in the absence of management where necessary);
- (j) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response;
- (k) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (l) where an internal audit function exists, to review the internal audit programme, 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 the effectiveness of the internal audit function;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- (n) to report to the Board on the matters set out in the terms of reference of the Committee and the Corporate Governance Code under Appendix 14 of the Listing Rules;
- (o) to review the financial and accounting policies and practices of the Company and its subsidiaries;
- (p) to review arrangements by which employees at the Company may in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow up action;
- (q) to act as the key representative body for overseeing the Company's relationship with the external auditor; and
- (r) to consider other topics, as defined by the Board.

Reporting procedures

22. The Committee shall report directly to the Board after each meeting on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).
23. The secretary to the Committee shall keep full minutes of all Committee meetings. Minutes of Committee meetings shall record in sufficient detail the matters considered by the Committee members and decisions reached, including any concerns raised by the Committee members and dissenting views expressed. Draft and final versions of minutes of meeting of the Committee shall be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. The secretary shall also circulate the minutes of meetings, reports and all written resolutions of the Committee to all members of the Board.
24. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board taken a different view.

Powers of the Board

25. The Board may, subject to compliance with the articles of association of the Company and the Listing Rules, amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if these terms of reference or resolution had not been amended or revoked.

Publication of these terms of reference

26. A copy of these terms of reference will be posted on the websites of the Company and The Stock Exchange of Hong Kong Limited.