
SUN ART RETAIL GROUP LIMITED

高鑫零售有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 06808)

Terms of Reference for the Audit Committee

(Adopted by the Company pursuant to the Board resolution passed on 11 December 2018 and applicable to the Company's accounting periods beginning on or after 1 January 2019)

Constitution

The board (“Board”) of directors (the “Director(s)”) of Sun Art Retail Group Limited (the “Company”, together with its subsidiaries, the “Group”) hereby constitutes and establishes an Audit Committee (the “Committee”) with authorities, responsibilities and duties as described below.

Purpose

The Committee is appointed by the Board of the Company with a view to assisting the Board in overseeing and reviewing:–

- the effectiveness of the Company's risk management and internal control systems 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 auditors and their independence assessment; and
- the effectiveness of the Company's internal audit function.

Membership

1. Members of the Committee shall be appointed by the Board from amongst the non-executive Directors of the Company.
2. The Committee shall consist of not less than three members, with a majority being independent non-executive Directors.
3. The Chairman of the Committee shall be an independent non-executive Director appointed by the Board.
4. At least one of the independent non-executive Directors serving as a member of the Committee must possess appropriate accounting 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”).

5. Appointments to the Audit Committee shall be for a period of up to three years, which may be extended by the Board provided that a majority of the Committee members remain independent non-executive Directors.
6. A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of two year from the date of his or her ceasing:–
 - a) to be a partner of the firm; or
 - b) to have any financial interest in the firm,whichever is later.

Quorum

A quorum shall be at least two members of the Committee of whom at least one shall be an independent non-executive Director.

Secretary

Unless it is agreed otherwise, the Company Secretary of the Company shall assume the role of Secretary for the Committee, who is well positioned to facilitate communication between the Board and the Committee and to access information required by the Committee members in pursuit of their duties.

Meetings

1. The Committee shall meet at least two times a year. Additional meetings may be convened as required and should be held as the Committee deems fit or upon request of the external auditors.
2. An agenda and other relevant documents should be sent in full to all Directors in a timely manner and at least three days before the intended date of a meeting of the Committee (or such other period as may be agreed by its members).
3. Meetings of the Committee may follow the same procedures as those for meetings of the Board under the relevant provisions in the Company's articles of association, as amended from time to time.
4. Other Board members shall also have the right of attendance. The Committee shall at least twice a year meet with the external auditors without executive Board members present.
5. The Secretary of the Committee will convene a meeting on receipt of a request by the external or internal auditors and shall circulate the meeting agenda and supporting documentation to the Committee members a reasonable period in advance of each meeting.
6. The finance director/chief finance officer, head of internal audit, relevant senior management and person(s) invited by a Committee member and representative(s) of external auditors shall normally attend meetings of the Committee.

7. The Chairman of the Committee or another member of the Committee shall attend the Board meeting at which the financial statements are approved.
8. Full minutes of the Committee should be kept by the Secretary of the Committee.
9. The draft and final versions of the minutes of the Committee meetings should be sent to all the Committee members for their comment and records respectively within a reasonable time after each meeting.
10. The Secretary of the Committee shall maintain records of all approved minutes and reports.

External Advice

As necessary or desirable, the Chairman of the Committee may obtain external professional advice and invite members of management and representatives of external advisors and/or auditors to be present at meetings of the Committee.

Authorities

The Board authorises the Committee:–

1. to perform activities within the scope of these terms of reference;
2. to engage independent counsel and other independent professional advisers as it deems necessary to carry out its duties;
3. to obtain information required by the Committee members in pursuit of their duties, and have access to members of management and other employees for such purpose; and
4. to evaluate and supervise the financial reporting process, risk management and internal control systems of the Group.

Duties and Responsibilities

The duties and responsibilities of the Committee shall include such duties and responsibilities set out in the relevant code provisions of the Corporate Governance Code (the “CG Code”) as contained in Appendix 14 of the Listing Rules (as amended from time to time).

Without prejudice to any requirement under the CG Code, the duties of the Committee include the following:–

1. Oversight of Financial Reporting System, Risk Management and Internal Control Systems
 - a) 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;

- b) to discuss the risk management and internal control systems with management to ensure that the management has performed its duty to have an 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 functions;
- c) to 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;
- d) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- e) to ensure that the Board provides a timely response to the issues raised in the external auditors' management letter; and
- f) to consider other topics as defined by the Board.

2. Review of Financial Information

- a) to review the Group's financial and accounting policies and practices;
- b) to monitor the balance, transparency and integrity of the Company's financial statements, annual reports and accounts, and half-yearly reports by ensuring that appropriate accounting principles, practices and reporting standards are followed, and to review significant financial reporting judgments contained therein, with particular focus 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 other legal requirements in relation to financial reporting.
- c) for the purposes of b) above:–
 - the Committee members must liaise with the Board, senior management and external auditors, and must meet with the external auditors at least twice a year; 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 external auditors.

3. Relationship with the External Auditors

- a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and to consider any questions of their resignation or dismissal;
- b) to review and monitor the external auditors' independence and objectivity, and the effectiveness of the audit process in accordance with applicable standards;
- c) to review the external auditors' proposed audit scope and approach and reporting obligations before the audit commences;
- d) to discuss with the external auditors any audit problems encountered in the audit work and the appropriateness of the accounting policies applied;
- e) to ensure that significant findings and recommendations made by the external auditors and management's proposed responses are received, discussed and appropriately acted on;
- f) to develop and implement policy on engaging external auditors to supply non-audit services, if any, to ensure that provisions of such services would not impair the independency and objectivity of the external auditors. For this purpose, "external auditors" 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;
- g) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed; and
- h) to act as the key representative body for overseeing the Company's relation with the external auditors.

4. Internal Audit

- a) to ensure co-ordination between the internal and external auditors;
- b) to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- c) to review and monitor the effectiveness of the internal audit function; and
- d) to ensure that significant findings and recommendations made by the internal auditors and management's proposed response are received, discussed and appropriately acted on.

5. Other duties and responsibilities

- a) to ensure the Company's compliance with laws and regulations, and establish procedures for:–
- the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
 - the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- b) to review insurance coverage of significant business risks and uncertainties;
- c) to identify the fraud risks to the Board in preventing and detecting fraud cases from logged data of system and behaviour within the Company;
- d) to report to the Board about alleged dishonest, illegal or misconduct activities occurring in the Company;
- e) to report to the Board on the matters under Code Provision C.3.3 of the CG Code;
- f) at least once a year, to review its own performance, constitution and terms of reference and recommend any changes it considers necessary to the Board for approval;
- g) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- h) to have access to the advice and services of the Company Secretary, and separate and independent access to the Company's senior management for obtaining necessary information.

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, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

Annual General Meeting

The Chairman of the Committee or in his absence, another member of the Committee or failing this, his duly appointed delegate, shall attend the Annual General Meeting of the Company and be prepared to respond to questions at the Annual General Meeting on the Committee's work and responsibilities.

Terms Available

The Committee shall make these Terms available on the websites of The Stock Exchange of Hong Kong Limited and the Company, respectively, in order to explain its roles and authorities delegated to it by the Board.