



Shui On Construction and Materials Limited

(Incorporated in Bermuda with limited liability)

Audit Committee - Constitution and terms of reference

Constitution

Members : The audit committee should comprise a minimum of three non-executive directors, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The majority of the audit committee members should be independent non-executive directors. The chairman should be an independent non-executive director.

Secretary : Company Secretary

Meetings

Quorum : Two members

Frequency : Four times each year and as necessary

Authority

The audit committee is authorised by the board to investigate any activity within its terms of reference. It is authorised to seek any information it may require from any employee and all employees are directed to cooperate with any request made by the committee.

The committee is also authorised by the board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

The duties of the audit committee are:-

- (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 handle 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 standards, and to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services; and to 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 the integrity of financial statements and the annual report and accounts, the half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing such reports and accounts 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 external and internal audits;
 - (iv) the going concern assumptions and any 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 of directors, senior management and the person appointed as the qualified accountant of SOCAM, and the committee must meet, at least once a year, with the auditors; 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 qualified accountant, compliance officer or auditors;
- (f) to review the financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

- (h) to consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response;
- (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 SOCAM, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the group's financial and accounting policies and practices;
- (k) 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 control and management's response;
- (l) to ensure that the board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the board on the matters set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules; and
- (n) to consider other topics, as defined by the board.

Reporting

Each year, the chairman of the audit committee shall present a report to the board which addresses the work and findings of the committee during the year. This annual report shall be issued upon completion of the financial year and include:-

- (a) Conclusions on the discussions with the external auditors regarding their work and findings pertaining to the review of the half-year and annual financial statements and management letter (if any).
- (b) Recommendations on the appointment of external auditors which should cover an assessment of the quality of service and the reasonableness of the fees charged and any questions of resignation, replacement or dismissal.
- (c) Conclusions on the efficacy of the system of internal control.
- (d) Conclusions about the work of the internal audit function and management's response to internal audit findings (where an internal audit function exists).

The secretary shall circulate the minutes of meetings of the audit committee in draft to all member of the committee within a reasonable time (not later than three weeks after the meeting) for comment and the final signed version to all members of the board.