

**CHEUNG KONG (HOLDINGS) LIMITED**

**AUDIT COMMITTEE - TERMS OF REFERENCE**

Revised on 1<sup>st</sup> January, 2005 pursuant to the Code on Corporate Governance Practices effective on 1<sup>st</sup> January, 2005.

**1. Membership**

- 1.1 The Audit Committee shall be appointed by the Board of Directors (the “Board”) and must consist of a minimum of three members (the “Members”).
- 1.2 Membership shall be confined to non-executive Directors the majority of which must be independent non-executive Directors (“INEDs”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Chairman of the Audit Committee shall be appointed by the Board and must be an INED.
- 1.4 In the event that the Audit Committee comprises a non-executive Director who is a former partner of the Company’s existing auditing firm, such non-executive Director shall be prohibited from acting as a Member of the Audit Committee for a period of one year commencing on the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.

**2. Secretary**

- 2.1 The Company Secretary shall be the secretary of the Audit Committee.
- 2.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Audit Committee.

**3. Meetings**

- 3.1 The Audit Committee shall meet at least twice each year. The Company’s external auditors may request that a meeting be held if they consider it necessary.
- 3.2 Notice of any meetings has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Notice of any adjourned meetings is not required if adjournment is for less than 14 days.
- 3.3 The quorum of the Audit Committee shall be any two Members.

- 3.4 Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 3.5 Resolutions of the Audit Committee at any meetings shall be passed by a majority of votes of the Members present.
- 3.6 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 3.7 Full minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Members for their comment and records respectively, in both cases within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection.

#### **4. Attendance at Meetings**

- 4.1 At least once a year, representatives of the Company's external auditors will meet the Audit Committee without any Executive Directors being present, except by invitation of the Audit Committee.
- 4.2 At the invitation of the Audit Committee, the following persons may attend the meeting:
  - i) Head of Internal Audit or in his/her absence, a representative from Internal Audit;
  - ii) Group Finance Director or Head of Accounts Department (or person occupying the same position); and
  - iii) other members of the Board or other persons.
- 4.3 Only Members of the Audit Committee are entitled to vote at the meetings.

#### **5. Annual General Meeting**

- 5.1 The Chairman of the Audit Committee or in his/her absence, another Member (who must be an INED) of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

## 6. Responsibility, Powers and Discretion

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting and internal control system. The Audit Committee shall have the following responsibilities, powers and discretion:

### *Relationship with the Company's External Auditors*

- 6.1 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;

*Note: The Listing Rules require an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the issuer.*

- 6.2 to review and monitor the external auditor's independence and objectivity;
- 6.3 to review and monitor the effectiveness of the audit process in accordance with applicable standard and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.4 to develop and implement policy on the engagement of 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;
- 6.5 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;

### *Review of financial information of the Company*

- 6.6 to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports (if applicable), and to review any significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and quarterly reports (if applicable) before submission to the Board, the Audit Committee shall focus particularly on:
- (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from audit;
  - (d) the going concern assumptions and any qualifications;

- (e) compliance with accounting standards; and
- (f) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

6.7 In regard to 6.6 above:-

- (a) Members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant;
- (b) the Audit Committee must meet, at least once a year, with the Company's external auditors; and
- (c) the Audit Committee shall 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 qualified accountant, compliance officer (or person occupying the same position), or external auditors;

*Oversight of the Company's financial reporting system and internal control procedures*

- 6.8 to review the Company's financial controls, internal control and risk management systems;
- 6.9 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;
- 6.10 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;
- 6.11 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;
- 6.12 to review the Group's financial and accounting policies and practices;
- 6.13 to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- 6.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.15 to report to the Board on all matters set out in the Terms of Reference; and
- 6.16 to consider any other matters specifically referred to the Audit Committee by the Board.

## **7. Reporting Responsibilities**

7.1 The Audit Committee shall report to the Board after each meeting.

## **8. Authority**

8.1 The Audit Committee is authorised by the Board to inspect all accounts, books and records of the Company.

8.2 The Audit Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company, its subsidiaries or affiliates, as may be required for the purposes of discharging its duties.

8.3 A Director as a Member of the Audit Committee may seek independent professional advice in appropriate circumstances at the Company's expense to discharge his/her duties as a Member of the Audit Committee to the Company.

*Note: Arrangement to seek independent professional advice could be made through Company Secretary.*

8.4 The Audit Committee shall be provided with sufficient resources to discharge its duties.

## **9. Publication of the Terms of Reference**

9.1 The terms of reference will be posted on the website of the Company. A copy of the terms of reference will be made available to any person without charge upon request.

*Remark: "senior management" should refer to the same category of persons as referred to in the Company's annual report and is required to be disclosed under Appendix 16 to the Listing Rules.*