



新世界百貨中國有限公司

New World Department Store China Limited

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 825)

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### Constitution

The board (the “**Board**”) of directors (the “**Directors**”) of New World Department Store China Limited (the “**Company**”) established a committee of the Board known as the Audit Committee (the “**Committee**”) on 12 June 2007.

### Membership

1. The Committee shall consist of not less than three members. A majority of members of the Committee must be independent non-executive Directors. All members shall be appointed by the Board.
2. A former partner of the Company's existing auditing firm from time to time should be prohibited from acting as a member of the Committee for a period of 1 year from the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.
3. The chairman of the Committee shall be appointed by the Board from among its independent non-executive Directors.

### Frequency and proceedings of meetings

4. The Committee shall meet at least twice a year.
5. Meetings of the Committee shall be convened by its chairman of the Committee or at the request of the Board.
6. A quorum shall be two-third of the members of the Committee.
7. The chief finance officer of the Company and any officer(s) assuming the relevant functions but having a different designation and a representative of the external auditor of the Company shall usually attend meetings of the Committee. Other members of the Board may be invited to attend a particular meeting in

order to answer specific points or concerns of the Committee. Where an internal audit function exists, the head of internal audit should normally attend meetings. The Committee shall meet with the external auditor at least once a year.

8. The company secretary of the Company or a nominee shall act as the secretary of the Committee.

### **Authority**

9. The Committee is authorized 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.
10. The Committee is authorised by the Board, at the Company's expense, to appoint legal or other independent professional advisers with relevant experience and expertise to assist the Committee and to secure the attendance of such professional advisers at its meetings if necessary.
11. The Committee is to be provided with such resources as may be necessary for it to perform its duties.

### **Duties and functions**

12. The duties of the Committee shall be:
  - A. to 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. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
  - C. to discuss with the external auditor before the audit process commences, the nature and scope of the audit and reporting obligations, and ensure coordination where more than one auditor is involved;
  - D. to develop and implement policy on engaging an external auditor to supply non-audit services (for which 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) and report to the Board on such policy, identifying and making recommendations on any matters where action or improvement is needed;

- E. to monitor the integrity of the Company's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, to focus particularly on:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) the going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- F. in regard to "E" above:
  - (a) members of the Committee should liaise with the Board and senior management to carry such review and the Committee must meet, at least twice a year, with the Company's auditors; and
  - (b) 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 auditors;
- G. to act as the key representative body for overseeing the Company's relation with the external auditor;
- H. to 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;
- I. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- J. to review the Company's financial controls, internal control and risk management systems;
- K. to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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;
- L. to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
  - M. 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;
  - N. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
  - O. to review the group's financial and accounting policies and practices;
  - P. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
  - Q. to review the Company's statement on internal control systems (to be included in the annual report) prior to endorsement by the Board;
  - R. to report to the Board on the matters in the relevant code provisions under the Listing Rules;
  - S. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
  - T. to consider other topics, as defined by the Board.

### **Reporting procedure**

13. The Committee shall report back to the Board on their findings or recommendations unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

*1 April 2012*