

# CHINA NEW TOWN DEVELOPMENT COMPANY LIMITED

(the “Company”)

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### 1. INTRODUCTION

- 1.1 The Corporate Governance Code and Corporate Governance Report (the “CG Code”) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEx”)(“Listing Rules”) require companies listed on HKEx to set up an audit committee which reports to the board of directors.
- 1.2 Set out below are the terms of reference of the Audit Committee, including its authorities and duties as well as the procedure regulating the conduct of its meetings.
- 1.3 In the event of any conflict between the provisions of the terms of reference contained herein and the provisions of CG Code, the provisions of CG Code shall prevail and the terms of references of the Audit Committee set out hereunder shall be deemed amended to such extent as may be necessary to remove such conflict.
- 1.4 The primary responsibilities of the Audit Committee are:
  - (a) to assist the board of directors of the Company (the “Board”) in fulfilling its responsibilities in respect of the Company’s accounting policies, risk management and internal controls, financial reporting practices and business policies;
  - (b) to monitor the management’s commitment to the establishment and maintenance of a satisfactory control environment and effective systems of risk management and internal control (including any arrangements for internal audit);
  - (c) to serve as a focal point for communication between other

directors, the financial management team, and the internal and external auditors of the Company as regards their duties relating to financial and other reporting, risk management and internal controls, external and internal audits and such other financial and accounting matters as the Board determines from time to time and to consider the adequacy of arrangements for audit; and

(d) to assist the Board in providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Company and its subsidiaries (the “Group”), overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time.

## **2. CONSTITUTION AND AUTHORITY**

2.1 The Committee is constituted by resolutions of the Board pursuant to the Company’s Articles and Association.

2.2 The Audit Committee is to be given explicit authority by the Board to investigate any matter within its terms of reference, full access and co-operation by the management and full discretion to invite any director or executive officer to attend its meetings and reasonable resources to enable it to discharge its functions properly.

2.3 In addition, the Audit Committee is given full authority to meet with the external auditors without other Board members, the management or internal auditors being present.

2.4 The Audit Committee is authorised by the Board at the expense of the Company 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 is necessary and it shall be given reasonable resources to enable it to discharge its functions properly.

2.5 The Audit Committee shall report to the Board on any suspected fraud and irregularities, failures of risk management and internal control or

suspected breaches of laws, rules and regulations which come to its attention in relation to the matters set out in these terms of reference and which are of sufficient importance to warrant the attention of the Board.

- 2.6 The Audit Committee shall be provided with sufficient resources to discharge its duties. App.14  
C.3.6

### **3. MEMEBERSHIP**

- 3.1 The Audit Committee shall be appointed by the Board from amongst the non-executive directors and independent non-executive directors of the Company and shall comprise not less than three (3) members. R3.21

- 3.2 All Audit committee members should be non-executive (i.e. should not be executive directors of the Company or any related corporation) and the majority of whom, including the Chairman, should be independent. At least 2 members should have recent and relevant accounting or related financial management expertise or experience as required under Rule 3.10(2) of the Listing Rules, as the Board interprets such qualification in its business judgement. Financial expertise could be indicated by professional certification, professional experience in accounting or finance or past experience as an executive with financial management responsibilities. R3.21

- 3.3 The Board may consider a director to be independent if he does not have any relationship with the Company, its subsidiaries, fellow subsidiaries and parent company which, in the opinion of the Board, would interfere with the exercise of the director's independent judgment in carrying out his functions as a member of the Audit Committee. The independence of a director shall be determined by reference to Rule 3.13 of the Listing Rules. R3.13

- 3.4 A majority of the members shall not be related to any executive director of the Company or of any related corporation (i.e. shall not be a spouse, parent, brother, sister, son or adopted son or daughter or adopted daughter of an executive director of the Company or of any related corporation.)

- 3.5 On appointment, and thereafter, every member of the Audit Committee shall submit an annual confirmation as on his independence. Such confirmation shall be submitted to the Board within two (2) months after the close of the financial year of the Company.
- 3.6 A member shall notify the Committee immediately, of any change in circumstances that may result in him not being able to meet the criteria for independence (within the meaning of Listing Rules and CG Code). The Board may, after considering the change in circumstances, require the resignation of the member from the Audit Committee.
- 3.7 A former partner or director of the Company's existing auditing firm should be prohibited from acting as a member of the Audit 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. App.14  
C.3.2
- 3.8 A member who wishes to retire or resign from the Audit Committee shall notify the Board by giving at least one (1) month's notice in writing.
- 3.9 The office of a member shall become vacant upon the member's resignation/retirement/removal or disqualification as a director of the Company.
- 3.10 If the number of members falls below three (3), the Board shall endeavor to fill the vacancy within two (2) months, but in any case not later than three (3) months.

#### **4. DUTIES**

- 4.1 The duties of the Audit Committee shall be:
- (a) to review with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of App. 14  
C.3.3(k)

control and management's response;

- (b) to review the balance sheet and profit and loss account and, if it is a holding company, the consolidated balance sheet and profit and loss account and thereafter to submit them to the directors of the Company or the directors of the holding company;
- (c) to review announcements of results before submission to the Board for approval;
- (d) to review and evaluate the assistance given by the management to the external auditors, including their access to all requested records, data and information; obtain comments from the management of the Company regarding the responsiveness of the external auditors to the Group's needs; make enquiries with the external auditors as to whether there has been any disagreements with the management of the Company which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;
- (e) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; App. 14  
C.3.3(l)
- (f) to review any significant unresolved differences between the external auditors, internal auditors and the management;
- (g) to review and monitor the external auditor's independence and objectivity and the scope, results and effectiveness (including cost effectiveness) of the audit process in accordance with applicable standards annually. The Audit Committee should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit process commences; App. 14  
C.3.3(b)
- (h) 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 App. 14  
C.3.3(c)

relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that actions or improvements are needed and making recommendations as to the steps to be taken;

- (i) to review the extent of any non-audit services provided by the external auditors and consider whether the provision of such services will impair their independence or objectivity, and in particular, when the external auditors supply a substantial volume of non-audit services to the Group, to keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money; Note 3 to App. 14 C.3.3(c)
  
- (j) to meet with the external auditors of the Company, and with the internal auditors, at least annually, in the absence of the management of the Company, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditors may wish to raise; Note 1(iii) to App. 14 C.3.3
  
- (k) to monitor and ensure the integrity of financial statements of the Company, the Company's annual report and accounts and half-year report, and any formal announcements relating to the Company's financial performance and to review significant financial reporting issues and judgements contained in them. In reviewing the Company's annual report and accounts and half-year report before submission to the Board, the Audit Committee should focus particularly on:- App. 14 C.3.3(d)
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) major risk areas;
  - (iv) significant adjustments resulting from audit;
  - (v) the going concern assumptions and any qualifications;

- (vi) compliance with accounting standards; and
  - (vii) compliance with the Listing Rules, financial reporting standards and other legal requirements in relation to financial reporting;
- (l) in relation to paragraph (k) above, App. 14  
C.3.3(e)
- (i) liaise with the Board, senior management of the Company and the staff responsible for the accounting and financial reporting function and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) 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;
- (m) 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 resignation or dismissal of that auditor; App. 14  
C.3.3(a)
- (n) 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; App. 14  
C.3.3(f)
- (o) to discuss with the management of the Company the systems of risk management and internal control and ensure that management has discharged its duty to have effective systems including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget; App. 14  
C.3.3(g)

- (p) to consider any findings of major investigations on risk management and internal control matters as delegated by the Board or on its own initiative and management's response; App. 14 C.3.3(h)
- (q) to commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity or failure of risk management and internal controls or suspected infringement of any law, rule and regulation (whether of Hong Kong or elsewhere) which has or is likely to have a material impact on the Company's operating results and/or financial position, and management's response;
- (r) to be familiar, through the individual efforts of its members, with the financial reporting principles and practices applied by the Group in preparing its financial statements;
- (s) to review and consider the budget or revised budget of the Company prepared by the Board;
- (t) to review the adequacy of the Company's risk management and internal controls, including financial, operational, compliance, information technology controls and risk management policies and systems established by the management at least once a year and ensure co-ordination between the internal and external auditors and management, review the assistance given by the management to the auditors, and discuss problems and concerns, if any, arising from audits, and any matters which the auditors may wish to discuss (in the absence of the management, where necessary) 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 of the Company. The review may be undertaken by internal and/or with assistance of any competent third parties provided that if a third party is employed, the independence of the latter is not compromised by any other material relationship with the Company; App. 14 C.3.3(i)
- (u) to review the Group's financial and accounting policies and App. 14 C.3.3(j)



practices;

- (v) to review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, and to ensure that arrangements are in place for independent investigation of such matters and for appropriate follow up action;
- (w) to review the scope, results and cost-effectiveness of internal audit procedures as well as the effectiveness of the Company's internal audit function;
- (x) to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company. The internal audit function could be (i) undertaken by an in-house unit, (ii) outsourced to a reputable accounting or auditing firm or (iii) undertaken by the internal audit staff of the Company's major shareholder, holding company, parent company or controlling enterprise. The Audit Committee should, at least annually, ensure the adequacy and effectiveness of the internal audit function;
- (y) the internal audit function should be staffed with persons with the relevant qualifications and experience;
- (z) to review connected person transactions (if any) periodically to ensure that they comply with the risk management and internal control procedures and the Listing Rules; and such review includes the examination of the transaction and its supporting documents or such other data deemed necessary by the Audit Committee;
- (aa) to review potential conflicts of interests (including any proposal which the Board might make to address and resolve any conflicts of interests arising as a result of any executive director of the Company concurrently holding executive appointments at the Company's parent company in the event that both the Group and the parent group of the Company (other than the Group) engage in the same business and/or compete with each other for the same project), if any;

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C.3.7(a)

- (bb) to recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (cc) to approve the hiring, removal, evaluation and compensation of the head of the internal audit function, or the accounting/auditing firm or corporation to which the internal audit function is outsourced;
- (dd) to undertake such other reviews and projects as may be requested by the Board and report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee as well as to report to the Board on the matters set out in CG Code; App. 14 C.3.3(m)
- (ee) to undertake such other functions and duties as may be required by any applicable laws and regulations, the Listing Rules, or by law, and by such amendments made thereto from time to time; and App. 14 C.3.3(n)
- (ff) to consider other topics, as defined by the Board.

## **5. MEETINGS**

- 5.1 Unless varied by these terms of reference, meetings and proceedings of the Audit Committee shall be governed by the provisions in the Company's Articles of Association regulating the meetings of the Board and the committees formed by it.
- 5.2 Meetings of the Audit Committee shall be held at least twice a year. Additional meetings should be held as and when the work of the Audit Committee demands.
- 5.3 The meetings of the Audit Committee may be conducted by means of telephone conferencing or other methods of simultaneous communications by electronic or telegraphic means and the minutes of such a meeting signed by the Chairman shall be conclusive evidence of the proceedings of any meeting conducted as aforesaid.

- 5.4 The external auditors or the internal auditors may request a meeting with the Audit Committee if they consider it necessary.
- 5.5 Meetings should be attended by:
- (a) the chief financial officer / finance director / manager (if requested by the Audit Committee);
  - (b) representatives of internal auditors; and
  - (c) representatives of external auditors, Provided That the Audit Committee shall meet with the external auditors and the internal auditors on separate occasions and without the management at least once a year.
- 5.6 The secretary of the Audit Committee shall be the Company Secretary of the Company.
- 5.7 The secretary shall minute the proceedings of all meetings. In his/her absence, the Audit Committee may appoint one (1) of their members or the finance director/manager to minute the proceedings thereof.
- 5.8 The notice and agenda of meetings shall be circulated to each member of the Audit Committee at least one (1) week before the scheduled meetings.
- 5.9 The quorum for meetings of the Committee shall be two (2) independent non-executive directors present and voting.
- 5.10 A resolution shall be considered passed if there is a majority of votes passed in favour of the resolution during a meeting of the Audit Committee. In the event of an equality of votes, the chairman of the Committee shall have a casting vote.
- 5.11 A resolution in writing, signed by a majority of the members for the time being entitled to receive notice of meeting of the Audit Committee is valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held. Any such resolution

may consist of several documents in original or facsimile in the like forms, each signed by one (1) or more members.

## **6. REPORTING PROCEDURES**

- 6.1 The Committee should report to the Board on a regular basis on its decisions or recommendations. The Committee shall report to the Board the outcome of its reviews and discussions with the external auditor and the internal auditors and its findings on any suspected fraud or irregularity, or suspected infringement of any Hong Kong laws, rules or regulations, or suspected improprieties in matters of financial reporting or other matters, which has or is likely to have a material impact on the operating results or financial position of the Company and/or the Group.
- 6.2 The Board shall disclose the names of the members of the Audit Committee, key terms of reference of the Audit Committee, explaining its role and the authority delegated to it by the Board, details of the Audit Committee activities, the number of Audit Committee meetings held in that year, and the attendance of each of the members at such meetings in the Company's annual report.
- 6.3 Full minutes of the meetings of the Committee shall be kept by the secretary of the Committee, who shall send draft and final versions of minutes of meetings and all written resolutions of the Committee to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.
- 6.4 At the next meeting of the Board following a meeting of the Audit Committee, the Chairman of the Audit Committee shall report to the Board on the findings and recommendations of the Audit Committee. At least once annually, the Audit Committee should present a report in writing to the Board which addresses the work and findings of the Committee during the year.
- 6.5 The Board shall comment on the adequacy of the risk management and internal controls, including financial, operational and compliance, information technology controls systems in the Company's annual

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report.

- 6.6 The Board should disclose in the Company's annual report measures taken by the Audit Committee members to keep abreast of changes to the accounting standards and issues which have a direct impact on the financial statements.

## **7. REMUNERATION**

- 7.1 Having regard to the functions performed by the members of the Audit Committee in addition to their functions as Directors, the members of the Audit Committee may be paid such remuneration in respect of their appointment on the Audit Committee as shall be fixed by the Board from time to time. for the avoidance of doubt, such remuneration shall be in addition to the fees payable to them as Directors.

*(Adopted by the Company pursuant to the board resolution passed on 31 March 2017 and applicable to the Company's accounting periods beginning on or after 1 January 2017.)*