

# **CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED**

## **中煙國際（香港）有限公司**

### **Term of Reference of Audit Committee**

#### **Members**

1. The Audit Committee shall be comprised of the non-executive directors, among which the independent non-executive directors shall be the majority. The chairman of the Audit Committee shall be appointed by the board of directors from amongst the independent non-executive directors.
2. One of the members of the Audit Committee should be the independent non-executive directors, who have appropriate professional qualifications or accounting qualifications or related financial management expertise as required by The Stock Exchange of Hong Kong Limited.
3. A former partner of the Company's auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year from the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the later.
4. The Audit Committee shall comprise not less than three members. The quorum for meetings of the Audit Committee shall be two members.

#### **Secretary**

5. The company secretary shall be the secretary of the Audit Committee.

#### **Attendance**

6. The head of financial department and internal audit department, and a representative of the external auditors shall normally attend meetings of the Audit Committee. Other members of the board of directors may also attend meetings of the Audit Committee.

#### **Frequency of meetings**

7. The Audit Committee shall meet at least twice a year. The Audit Committee shall meet at least twice a year with the external auditors and at least one such meeting shall be held without any executive directors being present. The external auditors may request a meeting should they consider necessary.

#### **Authorities**

8. The Audit Committee is authorised by the board of directors to conduct any activity within its terms of reference. It is also authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
9. The Audit Committee is authorised by the board of directors to seek external legal or other independent professional advice at the Company's expense. If the Audit Committee considers necessary, it may also secure the attendance of external person with relevant experience and expertise at any meeting.

## Duties

10. The duties of the Audit Committee are:

- a. to be primarily responsible for making recommendations to the board of directors on the appointment, reappointment and removal of the external auditors, and to deal with any questions of resignation or dismissal of such auditors;
- b. to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences. The Audit Committee should ensure co-ordination between auditing firms should more than one auditing firm be involved;
- c. to develop and implement policy on engaging external auditors to supply non audit services. For this purpose, the Audit Committee should report to the board of directors, identifying and making recommendations on any matters where action or improvement is needed;
- d. to monitor integrity of financial statements of the Company and the Company's quarterly reports, interim report and annual report, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the board of directors, the Audit Committee should focus particularly on:
  - 1) any changes in accounting policies and accounting practices;
  - 2) major judgmental areas;
  - 3) significant adjustments resulting from audit;
  - 4) the going concern assumptions and any qualifications;
  - 5) compliance with accounting standards; and
  - 6) compliance with stock exchange rules and legal requirements.

In performing its duties set out in this paragraph, the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such quarterly reports, interim report and annual report, and 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. In addition, the Audit Committee members should liaise with the Company's board of directors and senior management.

- e. to oversee the Company's financial reporting system, risk management and internal control systems:
  - 1) to discuss the risk management and internal control systems with management to ensure that the management has performed its duty to have effective internal control systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
  - 2) to consider major investigation findings on risk management and internal control matters on its own initiative or as delegated by the board of directors and management's response to these findings;
  - 3) to review the Company's statement on internal control before submission to the board of directors;
  - 4) to review the internal audit plan and ensure the effectiveness of the internal and external auditors. The Audit Committee shall also ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and
  - 5) the head of internal audit is directly accountable to the Audit Committee and the board of directors. The Audit Committee shall review the internal audit report and report to the board of directors and make recommendations.
- f. to review the Company's financial and accounting policies and practices:
  - 1) to review the external auditors' management letter, any material queries raised by the auditors to the management about accounting records, financial accounts or systems of control and management's response; and
  - 2) to ensure that the board of directors will provide a timely response to the issues raised in the external auditors' management letter;
- g. to review arrangements set by the Company, which employees of the Company can use, in confidence, to report possible improprieties in financial reporting, internal control or other matters. The Company shall carry out fair and independent investigation and appropriate follow-up action in relation to such matters;
- h. to act as the key representative body for overseeing the Company's relations with the external auditors;
- i. the Audit Committee shall establish a whistleblowing policy and system for employees and those who deal with the Company to report, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company; and
- j. other matters required by laws, administrative regulations, industry rules and authorized by the Board.

## **Minutes of meetings**

11. Minutes of meetings of the Audit Committee shall be kept by the secretary of the meeting (the company secretary). Draft and final versions of the minutes shall be sent to all members of the Audit Committee for their comment and record within a reasonable time after the meeting.

## **Performance review**

12. The Audit Committee shall review its performance annually with reference to the authorities and duties set out herein.