



北京京客隆商業集團股份有限公司

**BEIJING JINGKELONG COMPANY LIMITED\***

*(a joint stock limited company incorporated in the People's Republic of China)*

**(Stock Code: 814)**

## **Terms of Reference of the Audit Committee**

### **I、 Constitution**

The Audit Committee (the “**Committee**”) was established pursuant to a resolution passed by the board of directors (the “**Board**”) of the Company at its meeting held on 29 July 2005.

These Terms of Reference of the Committee were approved by the Board on 29 July 2005 and were amended after the approval by the Board on 23 March 2012.

### **II、 Membership**

- 1、 The Committee must consist of not less than three members (“**Members**”) who shall be non-executive Directors. The Board has passed a resolution that the initial Members shall be the three independent non-executive Directors.
- 2、 The majority of the Members shall be independent non-executive Directors, at least one of whom is an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise

as required by Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (as amended from time to time) (the “**Listing Rules**”).

3、 All Members shall be appointed by the Board, and could be removed pursuant to the Board’s sole discretion. The Board shall from time to time vary the composition of the Committee as may be required by the Listing Rules or any other legal requirements.

4、 A former partner of the Company’s existing auditing firm shall not act as a Member for a period of 1 year commencing on the date of his ceasing:

(1) to be a partner of such auditing firm; or

(2) to have any financial or economic interest in such auditing firm,

whichever is later.

### **III、 Chairman**

The chairman of the Committee shall be appointed or removed by the Board. The chairman of the Committee shall be an independent non-executive Director.

### **IV、 Secretary**

- 1、 The company secretary of the Company shall be the secretary of the Committee.
- 2、 The Committee may, from time to time, appoint any other person with appropriate qualification and experience as the secretary of the Committee.

### **V、 Authority**

- 1、 The Board authorizes the Committee to, pursuant to these Terms of Reference, inspect all accounts, books and records of the Company and conduct any investigation. The Committee is entitled to request any necessary information from

any employee. All employees of the Company shall cooperate with the Committee and to satisfy its requests.

- 2、 The Board authorizes the Committee to seek external legal advice or other independent professional opinion. If necessary, other persons with the relevant experience and professional knowledge may be invited to attend meetings of the Committee. Arrangements to seek independent professional opinion may be made through the company secretary.
- 3、 The Committee shall be provided with sufficient resources to perform its duties.

## **VI、 Responsibility**

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

### **A. Relationship with the external auditors**

- 1、 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;
- 2、 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should:
  - (1) consider all relationships between the Company and the external auditor (including non-audit services);

- (2) obtain annually from the external auditor information about policies and processes adopted for maintaining independence and monitoring compliance with relevant requirements, including those for the rotation of the partners and staff of the external auditor; and
- (3) meet with the auditor, at least annually and in the absence of the management, to discuss matters relating to its audit fees, and any other issues arising from the audit and any other matters the external auditor may wish to raise;
- 3、 the Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 4、 to develop and implement policy on engaging an external auditor to supply non-audit services. For this 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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 5、 to act as the key representative for overseeing the relationship between the Company and the external auditor;
- 6、 to be primarily responsible for making recommendation to the Board for the approval of any non-audit services provided to the Company by the external auditor. The Committee should ensure that the provision of such non-audit services does not impair the external auditor’s independence or objectivity. When assessing the independence or objectivity of the external auditor in relation to the provision of non-audit services, the Committee should consider:
  - (1) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;

- (2) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
  - (3) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and
  - (4) criteria for compensation of the individuals performing the audit;
- 7、 to set policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The Committee should then be in a position to consider whether there has been or appears to be any impairment of the auditor's judgment or independence for the audit;

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

- 8、 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
- (1) any changes in accounting policies and 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 the Listing Rules and legal requirements in relation to financial reporting;
- 9、 Regarding paragraph 8 above:

- (1) Members should liaise with the Board and senior management and the Committee

- must meet, at least twice a year, with the Company's auditors;
- (2) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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;
  - (3) discuss (in the absence of executive Directors if appropriate) any problems or reservations which the Company's external auditor may have arising from any audit or review or otherwise; and
  - (4) check and confirm that the Company's practices and procedures for compliance with Listing Rules, the relevant legal and the Stock Exchange requirements with respect to connected transactions are followed;

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

- 10、 to review the Company's financial controls, internal control and risk management systems;
- 11、 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;
- 12、 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;
- 13、 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 the Company, and to review and monitor its effectiveness;
- 14、 to review the group's financial and accounting policies and practices;

- 15、 to review the external auditor’s management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management’s response;
- 16、 to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;

#### **D. Corporate governance functions delegated by the Board**

- 17、 To ensure the upheld of good corporate governance including, but not limited to:
  - (1) to develop and review the policies and practices of the Company on corporate governance and make recommendations to the Board;
  - (2) to review and monitor the training and continuous professional development of Directors and senior management;
  - (3) to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements;
  - (4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Directors and employees; and
  - (5) to review the compliance by the Company with the Corporate Governance Code (Appendix 14 to the Listing Rules) (the “**Corporate Governance Code**”) and the disclosure in the Corporate Governance Report.

#### **E、 Other responsibilities**

- 18、 to review arrangements for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

19、 to report to the Board on the matters set out in these Terms of Reference and the Corporate Governance Code ; and

20、 to consider other topics, as defined by the Board.

## **VII、 Reporting**

1、 The Committee should report its resolutions and recommendations to the Board, except for those limited by any laws or regulations.

2、 The secretary of the Committee shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

## **VIII、 Committee meetings**

### **1、 Frequency of meetings**

The Committee must meet at least twice per year. If necessary, the external auditor might request to convene a meeting of the Committee.

### **2、 Notice**

Notice of any meetings has to be given at least 5 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 is not required if adjournment is for less than 5 days.

### **3、 Quorum**

The quorum for meetings of the Committee shall be:

(1) 2 Members; and

(2) the majority of the Members present must be independent non-executive Directors.



#### **4、 Attendance at meetings**

Members may participate in a meeting in person or by means of a telephone conference or other similar means of communication through which all persons participating in the meeting are capable of hearing each other.

The following persons should attend the Committee's meetings unless required otherwise by the Committee:

- (1) external auditor's representatives;
- (2) internal auditing department's manager;
- (3) financial controller; and
- (4) company secretary.

Other Board members may also attend meetings of the Committee, but only Members are entitled to vote. The Committee should meet with external and internal auditors at least once a year in the absence of executive Directors.

#### **5、 Resolutions**

Resolutions of the Committee shall be passed by a simple majority of votes at any meeting or through unanimous written resolutions. Meetings may be held in person, by telephone conference or video conference.

#### **6、 Meeting minutes**

Full minutes of Committee meetings should be kept by the secretary of the Committee. Draft and final versions of minutes of the Committee meetings should be sent to all Members for their comment and records within a reasonable time after the meeting.

All minutes of Committee meetings shall be delivered to the Members and other members of the Board at the same time.

#### **IX、Annual general meeting**

The chairman of the Committee or, in his/her absence, another Member (who must be an independent non-executive Director), shall attend the Company's annual general meetings and be prepared to respond to shareholders' questions on the Committee's activities and its responsibilities.

#### **X、Effective date, amendments and publication of these Terms of Reference**

- 1、 These Terms of Reference shall come into effect on the date when they are approved by the Board.
- 2、 Any amendments to these Terms of Reference shall be recommended by the Committee and come into effect on the date when they are approved by the Board.
- 3、 In case of any inconsistency or ambiguity between the English version and the Chinese version, the Chinese version shall prevail.
- 4、 These Terms of Reference will be included on the respective official websites of the Hong Kong Exchanges and Clearing Limited and the Company.
- 5、 A person may obtain a copy of these Terms of Reference free of charge by making a written request to the company secretary.

*\*For identification purposes only*