

New World Development Company Limited (“Company”)

Terms of Reference of Audit Committee (the “Committee”)

(Revised on 23 February 2016 and effective on 1 July 2016)

1. Membership

- 1.1 The Committee shall be appointed by the board of directors of the Company (the “**Board**”) from amongst the non-executive directors of the Company and shall consist of not less than three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)(the “**Listing Rules**”).
- 1.2 The majority of the Committee members must be independent non-executive directors of the Company.
- 1.3 The Chairman of the Committee shall be appointed by the Board from amongst the independent non-executive directors of the Company.
- 1.4 A member of the Committee who ceases to be a member of the Board shall immediately and automatically cease to be a member of the Committee.

2. Secretary

- 2.1 The Company Secretary or his designate shall act as the secretary of the Committee.

3. Attendance at meetings

- 3.1 The Head of Finance and Accounts Department of the Company and representatives of external auditors shall attend all meetings at the invitation of the Committee.
- 3.2 Other Board members shall also have the right of attendance. However, at least twice a year, members of the Committee shall meet with the external auditors without executive directors present.

4. Frequency of Meetings

- 4.1 The Committee shall meet at least twice a year. Additional meetings shall be held as the work of the Committee demands. Meetings may be held in person, by telephone or by video conference.

4.2 External auditors may request a meeting if they consider that one is necessary.

5. Notice of Meetings

5.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any member of the Committee.

5.2 Unless otherwise waived by all members of the Committee, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no later than 3 days before the date of the meeting. Supporting papers shall be sent to the Committee members and to other attendees as appropriate, at the same time.

6. Proceeding of Meetings

6.1 The quorum necessary for the transaction of business of the Committee shall be two, of which both of them must be independent non-executive directors of the Company. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

6.2 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the members of the Committee present. In the case of any equality of votes, the Chairman of the Committee shall have a casting vote.

6.3 Unless specified by these terms of reference, meetings and proceedings of the Committee shall be governed by the Company's Articles of Association regulating the meetings and proceedings of the directors.

7. Minutes of Meetings

7.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

7.2 Draft and final versions of minutes of meetings should be sent to all Committee members for their comments and records, within a reasonable time after such meetings.

8. Authority

8.1 The Committee is authorized by the Board to:

- (a) review any activity within its terms of reference;

- (b) obtain all information and explanations which its members consider necessary to fulfill the duties of the Committee; and
- (c) obtain outside legal or independent professional advice to assist the Committee in their work, and such advisors may attend meetings as necessary.

9. Duties

9.1 The duties of the Committee shall be:

Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of an external auditor, and to approve the remuneration and terms of engagement of an external auditor, and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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;

Review of the Company's financial information

- (d) to monitor integrity of the Company's financial statements and annual reports and accounts, half-year reports 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, the Committee should focus particularly on:

- (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:
- (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) 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;

Oversight of the Company's financial reporting system, risk management and internal control systems

- (f) 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;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;
- (h) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- (i) 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;
- (j) to review the group's financial and accounting policies and practices;
- (k) to review the external auditors' management letters, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letters;
- (m) to report to the Board on the matters in the applicable code provision(s) of the Corporate Governance Code (Appendix 14) of the Listing Rules;
- (n) to consider other topics, as defined by the Board;

Others

- (o) 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. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditors.

10. Reporting Responsibilities

10.1 The Committee shall make whatever recommendations to the Board it deems appropriate or any area within its remit where action or improvement is needed.

10.2 The Committee shall report to the Board on any of the following irregularities which come to its attention:

- (a) suspected frauds and other irregularities;

(b) significant weaknesses in internal control and financial and other reporting;

(c) non-compliance with policies and procedures of the Company; or

(d) infringements of the applicable laws, rules and regulations.

10.3 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

10.4 The Chairman of the Committee, or failing him, any member of the Committee shall attend the annual general meetings of the Company and shall answer questions on the Committee's activities and their responsibilities.

10.5 The Committee shall report back to the Board and keep the Board informed of its decisions and recommendations, unless prohibited by applicable laws and regulations.

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