

THE HONGKONG AND SHANGHAI HOTELS, LIMITED

(the “Company”)

AUDIT COMMITTEE

TERMS OF REFERENCE

1. **CONSTITUTION**

The Board of Directors of the Company (the “Board”) adopted this revised set of Terms of Reference for the Audit Committee (the “Committee”) by resolution passed on 15 December 2008.

2. **PURPOSE**

In respect of the Company and its subsidiaries (the “Group”):-

- 2.1 To perform an oversight role to monitor the financial reporting and audit processes, including the management, the internal auditors (the “Internal Auditors”), the authorised independent auditors (the “Authorised Auditors”) and the interaction between the parties.
- 2.2 To support the Internal Auditors in identifying, disclosing and dealing with problems and that an effective internal audit process is adhered to.
- 2.3 To ensure that the Authorised Auditors can perform their work independently and objectively.
- 2.4 To promote open discussions among parties involved in the financial reporting and audit processes with a view to exercising better judgment and estimates.

3. **RESPONSIBILITIES**

In respect of the Group, the Committee shall be responsible for the following with a view to achieve the above purposes:-

Review of financial information

- 3.1 To monitor the integrity of financial statements and annual report and accounts, half-year report and quarterly reports (if published), and to review significant financial reporting judgments contained in them.

- 3.2 To review the financial statements and annual report and accounts, half-year report and quarterly reports (if published) before submission to the Board with particular focus on:-
- (a) any changes in accounting policies and practices and their appropriateness;
 - (b) major judgmental issues and estimates;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumption and qualifications;
 - (e) compliance with accounting standards;
 - (f) adequacy of disclosure, including as to unusual items;
 - (g) compliance with accounting standards the Listing Rules and other legal requirements in relation to financial reporting; and
 - (h) consistency within the financial statements and with prior disclosures.
- 3.3 To liaise with the Board and the Finance Department of the Company and meet with the Authorised Auditors at least twice a year to discuss the financial statements of the Company and the Company's annual report and accounts, half-year reports and quarterly reports (if published).
- 3.4 To review the Group's operating, financial and accounting policies and practices.
- 3.5 To consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and 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 Authorised Auditors.

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

- 3.6 To review the Company's financial controls, internal controls and risk management systems.
- 3.7 To discuss with the management the systems of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

- 3.8 To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.
- 3.9 To ensure co-ordination between the Internal Auditors and External Auditors; to ensure that the (internal audit and risk management department) IARM Function is adequately resourced and has appropriate standing within the Company; and to review and monitor the effectiveness of the IARM Function.
- 3.10 To coordinate annual reviews of the effectiveness of the systems of internal control of the Group and report to shareholders in the Corporate Governance Report.
- 3.11 To conduct annual audit planning reviews with the Internal Auditors.
- 3.12 To review the general adequacy of the accounting systems and internal controls and discuss with the management on the efficiency of the internal controls in place.

Relationship with the Authorised Auditors

- 3.13 To recommend to the Board on the appointment, reappointment and removal of the Authorised Auditors, and to approve the remuneration and terms of engagement of the Authorised Auditors, and any questions of resignation or dismissal of the Authorised Auditors.
- 3.14 To oversee and monitor the Authorised Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.
- 3.15 To establish the following procedure to review and monitor independence of Authorised Auditors:-
 - (a) consider all relationships between the Company and the Authorised Auditors (including the provision of non-audit services);
 - (b) seek from the Authorised Auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff; and
 - (c) meet with the Authorised Auditors, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the Authorised Auditors may wish to raise.

- 3.16 To discuss with Authorised Auditors the nature and scope of the audit and reporting obligations before audit commences.
- 3.17 To develop and implement policy on the engagement of Authorised Auditors to supply non-audit services. For this purpose, Authorised Auditors 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 relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should ensure that the provision of such services does not impair the Authorised Auditors' independence or objectivity. In relation to non-audit services, the Committee should consider:-
- (a) whether the skills and experience of the Authorised Auditors make it a suitable supplier of the non-audit services; and
 - (b) whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the Authorised Auditors.
- 3.18 To act as the key representative body for overseeing the Company's relations with the Authorised Auditors.
- 3.19 To review the Authorised Auditors' management letter, any material queries raised by the Authorised Auditors to management in respect of the accounting records, financial accounts or systems of control and management's response.
- 3.20 To ensure that the management will provide a timely response to the issues raised in the Authorised Auditors' management letter.
- 3.21 To report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 3.22 To discuss with the Authorised Auditors problems or reservations they may have during audit process in the absence of the management.

Other responsibilities

- 3.23 To review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action.
- 3.24 To satisfy itself that proper business ethics have been followed.

3.25 To conduct such investigation in relation to matters or activity within its terms of reference.

3.26 To consider other topics or carry out any other duties as the Board may delegate from time to time and report back to the Board on their discussions or recommendations.

4. AUTHORITY

The Committee has unrestricted access to the Chief Executive Officer, the Chief Financial Officer, the Authorised Auditors and Internal Auditors. Internal Auditors shall have the right to contact the Committee without reference to management.

5. MEMBERS

5.1 The Chairman and the majority members of the Committee shall be independent non-executive directors nominated by the Board. At least one member shall have the appropriate qualifications or experience in financial reporting.

5.2 Other members of the Committee shall be appointed by the Board and the Board may, from time to time, at their discretion, revoke the setting up of the Committee or the appointment of any members thereof.

5.3 The Committee shall consist of not less than two but not more than five members.

5.4 A former partner of the Company's Authorised Auditors shall be prohibited from acting as a member of the Committee for a period of one year commencing on the date of his ceasing:-

(a) to be a partner of the Authorised Auditors; or

(b) to have any financial interest in the Authorised Auditors,

whichever is the later.

6. PROCEEDINGS

Unless otherwise specified by the Board, two members of the Committee shall form a quorum. Attendance may be in person or through electronic means of communication.

7. MEETINGS

- 7.1 The Committee shall meet not less than two times a year and when necessary for proper discharge of its duties.
- 7.2 Executive Directors, the Authorised Auditors, the Internal Auditors, or other persons who are appropriate may be invited to attend particular meetings to answer specific points or concerns.
- 7.3 When necessary, written resolutions are circulated to all Committee members for approval in between meetings.
- 7.4 Regular Committee meeting dates are advised to all Committee members at the end of previous year. For all other Committee meetings, reasonable notice of no less than one week shall be given.

8. MINUTES AND RECORDS

- 8.1 The Company Secretary or a duly appointed secretary of the meeting keeps minutes of Committee meetings. Any Committee member may inspect the minutes of the Committee meetings at any reasonable time on any reasonable notice.
- 8.2 Minutes of Committee meetings shall record in sufficient detail the matters considered by the Committee and decisions reached, including any concerns raised by Committee members or dissenting views.
- 8.3 Draft and final versions of minutes of the Committee meetings should be sent to all members for their comment and records respectively, within a reasonable time (normally within one month) after the meeting is held.

9. ADVICE

- 9.1 All Committee members can have access to the advice and services of the Company Secretary who is responsible to the Committee for ensuring that Committee procedures, and all applicable rules and regulations, are followed.
- 9.2 Committee members may upon reasonable request to the Chairman of the Committee, seek independent professional advice at the Company's expense to assist them to discharge their duties to the Company.
- 9.3 The Committee shall be provided with sufficient resources to discharge its duties.

10 **DISCLOSURES**

- 10.1 The Committee shall make available on the Company's website this set of Terms and Reference, and to explain the role of the Committee and the authority delegated to it by the Board.

- 10.2 In the event that the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the Authorised Auditors, the Company shall include in the Corporate Governance Report a detailed explanation of the Committee's view and also the reason(s) why the Board has taken a different view.