

# **ESPRIT HOLDINGS LIMITED**

## **AUDIT COMMITTEE**

### **TERMS OF REFERENCE \***

#### **1. CONSTITUTION**

The Board has resolved to establish a Committee of the Board known as the Audit Committee (“Audit Committee”).

#### **2. DUTIES**

The Audit Committee should carry out the duties below (as may from time to time be varied or supplemented by the Board) for the Company and its subsidiaries and the group as a whole, as appropriate.

##### *Relationship with the Company’s auditors*

- (a) to be primarily responsible for making recommendation 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;
- (b) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services;

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

- (d) to monitor integrity of financial statements of the Company and the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit 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 Exchange Listing Rules and other legal requirements in relation to financial reporting;
- (e) In regard to 2(d) above:
  - (1) members of the Audit Committee shall liaise with the Company's Board of Directors, senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least once a year, with the Company's auditors; and
  - (2) the Audit Committee should 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 qualified accountant, compliance officer or auditors;

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

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (h) 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;
- (i) 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 the effectiveness of the internal audit function. Reference to internal auditors or internal audit function shall include any audit function outsourced by the Company. It should be noted that any outsourcing of internal audit functions require prior approval of the Audit Committee which shall keep the scope, terms and effectiveness of the outsourcing under review;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the 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 auditor's management letter;
- (m) to report to the Board on the matters set out in the code provisions in the Company's Corporate Governance Code regarding the Audit Committee;
- (n) to review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The

Audit Committee shall ensure that these arrangements allow fair and independent investigation of such matters and appropriate follow up action; and

- (o) to consider other topics, as from time to time defined by the Board.

### **3. SUPPORT FROM THE COMPANY**

The Audit Committee is authorised by the Board to utilise all such resources as are required for it to discharge its duties and to have access to professional advice if considered necessary.

### **4. MEMBERSHIP**

- (a) Members of the Audit Committee shall be appointed by the Board in consultation with the Chairman of the Audit Committee. The Audit Committee shall be made up of at least 3 members.
- (b) All members of the Audit Committee shall be Non-Executive Directors, a majority of whom shall be Independent Non-Executive Directors and at least one of the Independent Non-Executive Directors shall have recent and relevant financial experience as envisaged in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Exchange Listing Rules”).
- (c) Appointments to the Audit Committee shall be co-terminus with the directorship of the relevant members (whether by retirement, rotation or otherwise).
- (d) The Board shall appoint the Audit Committee Chairman who shall be an Independent Non-Executive Director. In the absence of the Audit Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### **5. MEETING**

#### **(a) Notice**

- (i) Meetings of the Audit Committee shall be summoned by the chairman or the Company Secretary or a person designated by the Company Secretary at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- (ii) Unless otherwise agreed, 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 Audit Committee, any other person required to attend, at least 3 days before the date of the meeting. Supporting papers shall be sent to Audit Committee members and to other attendees as appropriate, at the same time.
- (iii) Only members of the Audit Committee have the right to attend Audit

Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, Finance Director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.

- (iv) The external auditors, the Finance Director and the Company's qualified accountant (within the meaning of Rule 3.24 of the Exchange Listing Rules) shall normally attend meetings of the Audit Committee (but members of the Audit Committee may deliberate between themselves to the exclusion of all other persons).
- (v) The Audit Committee shall meet with the external and internal auditors at least once a year without other members of the executive being present.

**(b) Quorum**

The quorum necessary for the transaction of the business of the Audit Committee shall be two, but if only two members are in attendance, then both members shall be Independent Non-Executive Directors and if more than two members are in attendance, a majority must be Independent Non-Executive Directors. A duly convened meeting of the Audit 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 Audit Committee.

**(c) Participation**

Members may participate in any meeting of the Audit Committee by means of a conference telephone or other communication equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

**(d) Frequency of Meetings**

The Audit Committee shall meet at least two times a year.

**(e) Minutes of Meeting**

- (i) The Company Secretary or a person designated by the Company Secretary shall be appointed by the Audit Committee to act as its secretary and the secretary shall minute the proceedings and resolutions of all meetings of the Audit Committee, including recording the names of those present and in attendance.
- (ii) Minutes of Audit Committee meetings shall be circulated promptly to all members of the Audit Committee and, once agreed, to all members of the Board.

## **6. ANNUAL GENERAL MEETING**

The Chairman of the Audit Committee (or, if he cannot attend, his delegate who shall be a member of the Audit Committee) shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Audit Committee's activities.

## **7. AUTHORITY**

The Audit Committee is authorised:

- (a) to seek any information it requires from any employee of the Company in order to perform its duties;
- (b) to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- (c) to call any employee to be questioned at a meeting of the Audit Committee as and when required.

## **8. REPORTING PROCEDURE TO THE BOARD**

- (a) The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any areas within its remit where action or improvement is needed, and it shall compile a report on its activities for the Board to consider in the context of preparing the Company's annual report. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- (b) The minutes discussed and approved by the Audit Committee will be made available to the Board. In addition, the Audit Committee will report formally to the Board in respect of its decisions and/or recommendations, or any significant matters of interest, after each meeting in case these matters are not sufficiently covered in the minutes or should be reported upon before the minutes are circulated.
- (c) The delegation to the Audit Committee is always subject to compliance with the applicable laws, regulations and the Exchange Listing Rules.

Approved by the Board at its meeting held on June 22, 2005

\* *The updated version of these Terms of Reference in compliance with the new Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with effect from April 1, 2012 is pending the approval by the Board at the forthcoming Board Meeting.*