

**MILLENNIUM & COPTHORNE HOTELS PLC**  
**AUDIT COMMITTEE - TERMS OF REFERENCE**

**A. POLICY**

The Board of Directors requires that the Group's businesses conduct themselves in accordance with acceptable ethical standards (as identified by the Business Integrity policy) and comply with all applicable laws, regulations and the policies and directives of the Board. To meet these objectives at a Group level and within the business units, well structured systems of internal control, risk management and corporate governance will be maintained and compliance with such systems reported upon.

The Board of Directors has established an audit committee (the "Committee") with authority to enable it, in conjunction with internal and external auditors and such other advisors as it considers necessary, to ensure that the Board's objectives, as stated above, are met. The Committee's responsibilities are more fully detailed below.

**B. ORGANISATION**

1. The Committee shall comprise not less than three independent non-executive directors of the Company, to be selected by the Board, one of whom must have recent and relevant financial experience. All Members shall be independent non-executive directors of the Company. The Board must from time to time review the composition of the Committee to ensure that members of the Committee have appropriate expertise, or access to such expertise, to enable them to understand the risks and principles that underpin the preparation of the financial statements. The Committee shall conduct an annual review of its responsibilities and these terms of reference and make such recommendations to the Board, as shall be considered appropriate.
2. Appointment to the Committee shall be for an initial period of three years and may be extended for two further periods of three years, provided the director continues to be independent.
3. The chairman of the Committee shall be appointed by the Board. In the absence of the Chairman, or his alternate, the remaining members of the Committee present may elect one of themselves to chair the meeting. If any

member of the Committee is unable to act for any reason, the chairman of the Committee may appoint any other independent non-executive director of the Company to act as alternate for the absent Committee member.

4. The Company Secretary, or his nominee, is the secretary of the Committee. The secretary shall circulate minutes of meetings of the Committee to all members of the Board.
5. Subject to article 114 of the Company's articles of association, the quorum for meetings of the Committee is any two of its members.
6. The Committee has the authority to engage, at the Group's expense, independent advisors to assist it in discharging its obligations.
7. The Finance Director, the Head of Internal Audit and a representative of the Company's external auditors must attend meetings of the Committee whenever requested by the Committee but their attendance should not be regarded as a right. However, the Head of Internal Audit or the external auditors may request a meeting with the Committee without any of the executives being present, to be arranged by the secretary.
8. Other executive directors of the Company may attend meetings of the Committee by invitation. At least once a year, the Committee should meet the Company's external auditors and separately with internal auditors, both meetings without any executive directors present.
9. Meetings of the Committee are to be held not less than four times a year. Any of the chairman of the Committee, Committee member, the Finance Director, the Head of Internal Audit or the Company's external auditors may request additional meetings of the Committee if he or she considers it necessary, to be arranged by the secretary. Notices of the meeting shall be forwarded to Committee members no less than five working days prior to the meeting together with supporting papers.
10. The Committee chairman shall report formally to the Board on its proceedings after each meeting.
11. The Committee shall compile a report to shareholders on its activities, to be included in the Company's Annual Report.

12. The Committee chairman shall attend the Company's annual general meeting and respond to questions raised on matters within the remit of the Committee.

### **C. RESPONSIBILITIES AND OBJECTIVES**

13. The Committee is authorised by the Board:

- 13.1 to satisfy itself by such means as it shall consider appropriate, that adequate information and control systems (including those relating to preventing and detecting fraud) are in place together with arrangements to monitor their effectiveness and that the businesses are conducted in a proper commercial, sound and ethical manner;

- 13.2 to act in an advisory capacity to the Board and to ensure co-ordination between the internal and external auditors;

- 13.3 to obtain independent legal or other professional advice and to secure the attendance of other persons at its meetings as it considers necessary;

- 13.4 to seek any information it requires from any employee of the Company in the performance of its duties and may call any employee to be questioned at a Committee meeting.

14. The detailed objectives of the Committee are:

- 14.1 to ensure that the corporate systems of internal control and risk management procedures are soundly conceived and properly administered and to review the effectiveness of such systems;

- 14.2 to cause reviews to be made of the extent of compliance with established policies, plans, procedures, laws and regulations and to monitor the critical financial reporting risks (and other risks as appropriate). To ensure, where they deem necessary, that suitably qualified individuals are appointed by the executive management with specific responsibility to monitor and effect compliance;

- 14.3 to consider the appointment of the external auditors, the auditors' remuneration and any question of resignation or dismissal of the auditors (including a review as to whether key partners should be rotated) and,

subsequently to make appropriate recommendations through the Board to the shareholders to consider at the annual general meeting;

- 14.4 to discuss with the auditors before the audit starts the nature and scope of the audit and ensure co-ordination where more than one firm of auditors is involved;
- 14.5 to approve the terms of engagement of the auditors and to agree any engagement letter;
- 14.6 to review the external auditors' management letter and response;
- 14.7 to keep under review the scope and results of the audit and its cost effectiveness, and to recommend the audit fee to the Board;
- 14.8 to keep under review the independence and objectivity of the auditors;
- 14.9 to keep under review the nature and extent of non-audit services supplied by the auditors (where they supply a substantial volume of such services to the Company), seeking to balance the maintenance of objectivity and value for money;
- 14.10 to review, prior to submission to the Board, the half-year, quarterly, other periodic financial statements, annual accounts, reports to shareholders and any other public announcement concerning the Company's financial position, which has not previously been reviewed by the Board or a committee of the Board, focusing particularly on:
  - a) the acceptability and quality of the accounting policies and practices and any changes therein;
  - b) any important areas where judgement must be exercised and the extent to which the financial statements are effected by any unusual transactions in the year and how they are disclosed;
  - c) any significant adjustments and other differences arising or identified from the audit and the clarity of any disclosures;
  - d) the going concern assumption;
  - e) compliance with accounting standards; and
  - f) other legal, UK Listing Authority or recognised investment exchange requirements.

The chairman of the Committee or, at least one other member of the Committee, shall attend the board meeting at which accounts are approved.

- 14.11 to review the annual financial statements of the pension funds;
- 14.12 to review the arrangements for employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The Committee shall ensure that these arrangements provide for proportionate and independent investigation of such matters and appropriate escalation;
- 14.13 to discuss problems and reservations arising from audits and any matters the auditors may wish to discuss (in the absence of executive directors, where necessary);
- 14.14 to submit the documents referred to in paragraph 14.9 to the Board for its approval and to determine what information should be brought to the Board's attention in connection with that submission;
- 14.15 to review any statement on corporate governance and/or internal control to be included in the directors' report before submission to the Board for its approval;
- 14.16 to agree the responsibilities of the internal audit function and
  - a) review annual audit plans;
  - b) be satisfied that the internal audit function has the proper resources to enable it to satisfactorily complete its mandate and the approved audit plans;
  - c) review status reports from the internal audit, considering management's response to any major finding and providing support, if necessary, for any follow-up action required;
  - d) ensure the internal audit function has full, free and unrestricted access to all group activities, records, property and personnel and receives such professional advice necessary to fulfil its agreed objectives;
  - e) request and review any special audit which the audit committee deems necessary; and
  - f) to consider and make recommendations to the Board regarding the appointment and removal of the Head of Internal Audit.

#### **D. RELATIONSHIP WITH AUDITORS**

The Head of Internal Audit will:-

- have direct access to the Chairman of the Board, the Senior Independent Director and to the Committee on matters of control, audit and accounts
- report significant audit findings to the Committee regularly and without delay
- provide the Committee with status reports and a summary of works performed of each regular meeting
- report to the Committee any inappropriate restrictions on audit scope

Representatives from the external auditors normally will be invited to attend the regular Committee meetings and be heard on any matter which affects them. They will be advised in ample time of such meeting dates and agenda items. They will at all times have direct access to the Committee on matters of control, audit and accounting.