



PEGASUS INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 676)

(the “Company”)

TERMS OF REFERENCE FOR AUDIT COMMITTEE

(Amended and approved by the board of directors of the Company in March 2023)

Constitution/Functions

1. The board of directors of the Company (the “**Board**”) hereby resolved to establish a committee of the Board to be known as the audit committee (the “**Audit Committee**”) of the Company (together with its subsidiaries, the “**Group**”) to review and supervise the Group’s financial reporting process, risk management and internal controls.

Membership

2. The members of the Audit Committee (the “**Members**”) shall be appointed by the Board and must comprise of a minimum of three Members.
3. Membership shall be confined to non-executive directors of the Company (the “**Directors**”), the majority of the Members must be independent non-executive Directors (the “**INEDs**”) and at least one of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). A quorum shall be two Members.
4. The Chairman of the Audit Committee shall be appointed by the Board and shall be an INED.
5. A former partner of the Company’s existing auditing firm should be prohibited from acting as a Member of the Audit Committee for a period of two years from the date of the person ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

Secretary

6. The company secretary of the Company shall be the secretary of the Audit Committee.
7. The Audit Committee may from time to time appoint any other person with appropriate qualification and experience to act as the secretary of the Audit Committee.

Meetings

8. Meetings shall be held not less than twice a year. The Audit Committee or the external auditor of the Company (the “**External Auditor**”) may request that a meeting be held if it considers is necessary.
9. The quorum of the Audit Committee shall be any two Members.
10. Unless otherwise provided in these terms of reference, all of the provisions contained in the Company’s Bye-Laws (as amended from time to time) for regulating meetings and proceedings of the Board shall govern the meetings and proceedings of the Audit Committee.
11. Notice of meetings has to be given at least 14 days prior to any such meeting being held, unless otherwise agreed by all the Members of the Audit Committee. Agenda and accompanying supporting papers shall be sent, in full, to all the Members of the Audit Committee and to any other attendees as appropriate at least 3 days in advance of the meeting or as otherwise agreed.
12. Meetings could be held in person, by telephone or by video conference.
13. Resolutions of the Audit Committee at any meeting shall be passed by a majority of votes of the Members present.
14. A resolution in writing signed by all the Members shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

Attendance at Meetings

15. At least once a year, representative of the External Auditor will meet the Audit Committee without any Executive Directors being present, except by invitation of the Audit Committee, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the External Auditor may wish to raise.
16. The Audit Committee may invite the Group Finance Director (or person occupying the same position), the Head of Internal Audit, the other members of the Board, a representative of the External Auditor and the Company Secretary of the Company to attend any meetings of the Audit Committee.
17. Other members of the Board may attend meetings of the Audit Committee although only the Members of the Audit Committee are entitled to vote at the meetings.

Annual General Meeting

18. The Chairman of the Audit Committee or another Member (who must be an INED) of the Audit Committee, shall attend the Annual General Meeting of the Company and be prepared to respond to shareholders' questions on activities of the Audit Committee and their responsibilities.

Authority

19. The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it may require from any employee and all employees of the Group are directed to cooperate with any request made by the Audit Committee.
20. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
21. The Audit Committee shall be provided with sufficient resources to perform its duties.

Duties

22. The duties of the Audit Committee shall primarily include, among others, the followings:

Relationship with the Company's External Auditor

- 22.1 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 the External Auditor;

Note: Rule 13.51(4) of the Listing Rules requires an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the issuer.

- 22.2 to review and monitor the External Auditor's independence and objectivity, including to:

- (i) consider all relationship between the Company and the audit firm; and
- (ii) obtain from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;

- 22.3 to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the External Auditor the nature and scope of the audit and reporting obligations before the audit commences;

- 22.4 to develop and implement policy on engaging of 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;
- 22.5 to report and make recommendations to the Board for the approval, identifying any matters where action or improvement is needed;
- 22.6 to meet with the External Auditor, 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 External Auditor may wish to raise;
- 22.7 to include in the corporate governance report of the Company (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 where the Board disagrees with the Audit Committee’s view on the selection, appointment, resignation or dismissal of the External Auditors;
- 22.8 to act as key representative body for overseeing the Company’s relations with the External Auditor;

Review of financial information of the Company

- 22.9 to monitor integrity of the Company’s financial statements and the annual report and accounts, half-year report and, if prepared for publication, quarterly reports (if applicable), and to review significant financial reporting judgements contained in them. In this regard, in reviewing these reports (if applicable) before submission to the Board, the Audit Committee should focus particularly on:
- (i) financial reporting and accounting policies and practices and any changes in these 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, other applicable rules and legal requirements in relation to financial reporting;

22.10 In regard to 22.9 above:

- (i) Members of the Audit Committee should liaise with the Board, senior management and the person appointed as the Company's qualified accountant (the "**Appointed Person**");
- (ii) the Audit Committee must meet, at least twice a year, with the Auditor; and
- (iii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and it should give due consideration to any matters that have been raised by the Appointed Person, compliance officer (or person occupying the same position) of the Company or the External Auditor;

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

22.11 to review the Company's financial controls, risk management and internal control systems and reports to the Board its findings for the Board's review;

22.12 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:

- (i) the adequacy of resources, staff qualification and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions;
- (ii) the changes in the nature or extent of significant risks, and the ability of the Company to respond to changes in its business and the external environment;
- (iii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems and the work of its internal audit function;
- (iv) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management; and
- (v) significant control failings or weaknesses that have been identified. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the financial performance or condition of the Company;

22.13 to consider major investigations finding on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

- 22.14 to ensure co-ordination between the internal auditors, the Auditor and other external auditors to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness, and to meet with the head of the internal audit at least once a year to ensure that there are no unresolved issues or concerns;
- 22.15 where an internal audit function exists, to ensure co-ordination between the internal auditor and External Auditor, and to ensure that the internal audit function is adequately resourced and have appropriate standing within the Company, and to review and monitor their effectiveness;
- 22.16 to review the Group's financial and accounting policies and practices;
- 22.17 to review the External Auditor's management letter, any material queries raised by the External Auditor to management in respect of the accounting records, financial accounts, risk management and internal control systems and management's response;
- 22.18 to ensure that the Board will provide a timely response to the issues raised in the External Auditor's management letter;
- 22.19 to report to the Board on the matters set out in the code provisions D.3.3 of the Corporate Governance Code and the Corporate Governance Report in Appendix 14 of the Listing Rules;
- 22.20 to consider other matters or topics, as defined or assigned by the Board from time to time;

Risk management and internal controls

- 22.21 on behalf of the Board, to evaluate and determine the nature and extent of the risk the Board is willing to take in achieving the Company's strategic objectives and to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems;
- 22.22 on behalf of the Board, to oversee management in the design, implementation and monitoring of the risk management and internal control systems and to seek management's confirmation on the effectiveness of the systems;

22.23 on behalf of the Board, to oversee the Company's risk management and internal control systems on an ongoing basis, to ensure that a review of the effectiveness of the risk management and internal control systems of the Group has been conducted at least annually and report to shareholders of the Company that it has done so in the CG Report. The review should cover all material controls, including financial, operational and compliance controls. The annual review should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting functions as well as those relating to the Company's environmental, social and governance ("ESG") performance and reporting;

22.24 the annual review of the Board should, in particular, consider:

- (i) the changes, since the last annual review, in the nature and extent of significant risk (including ESG risks), and the Company's ability to respond to changes in its business and the external environment;
- (ii) the scope and quality of management's ongoing monitoring of risks (including ESG risks) and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
- (iii) the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management;
- (iv) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- (v) the effectiveness of the Company's processes for financial reporting and the Listing Rules compliance.

22.25 to disclose, in the CG Report, a narrative statement on how the Company has complied with the risk management and internal control code provisions during the reporting period. In particular, the Company should disclose:

- (i) the process used to identify, evaluate and manage significant risks;
- (ii) the main features of the risk management and internal control systems;
- (iii) an acknowledgement by the Board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss;

- (iv) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and
- (v) the procedures and internal controls for the handling and dissemination of inside information;

22.26 to review arrangements for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action by the Board;

22.27 to establish a whistleblowing policy and system for employees and, if deemed necessary, those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company; and

22.28 to report to the Board on its major activities, findings, decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

Reporting Procedures

23. Full minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Members for their comments and records respectively, in both cases within a reasonable period of time after the meeting. Finalised minutes shall be sent to all other members of the Board for information.

Publication of the Terms of Reference

24. These terms of reference of the Audit Committee shall be made available to the public by posting the same on the websites of the Company and Hong Kong Exchanges and Clearing Limited respectively.