

## **AUDIT COMMITTEE**

### **TERMS OF REFERENCE**

#### **1. CONSTITUTION**

Pursuant to the resolution passed on 16th September, 1998 by the board of directors of the Company (the “Board”), an Audit Committee (the “Committee”) was established.

#### **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 auditor (the “Authorised Auditor”) 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 Auditor 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 judgement and estimates.
- 2.5 To review and monitor the effectiveness of risk management and internal control systems.

### 3. **RESPONSIBILITIES**

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

#### *Relationship with the Authorised Auditor*

- 3.1 To recommend to the Board on the appointment, reappointment and removal of the Authorised Auditor, and to approve the remuneration and terms of engagement of the Authorised Auditor, and any questions of resignation or dismissal of the Authorised Auditor.
- 3.2 To review and monitor the Authorised Auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.
- 3.3 To discuss with Authorised Auditor the nature and scope of the audit and reporting obligations before audit commences.
- 3.4 To establish the following procedures to review and monitor the independence of Authorised Auditor:-
  - (a) consider all relationships between the Company and the Authorised Auditor (including the provision of non-audit services);
  - (b) seek from the Authorised Auditor, 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 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 Authorised Auditor may wish to raise.
- 3.5 To develop and implement policy on the engagement of Authorised Auditor to supply non-audit services. For this purpose, Authorised Auditor 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 Auditor's independence or objectivity. In relation to non-audit services, the Committee should consider:-
  - (a) whether the skills and experience of the Authorised Auditor make them 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 Auditor.

- 3.6 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.
- 3.7 To act as the key representative body for overseeing the Company's relation with the Authorised Auditor.
- 3.8 To discuss with the Authorised Auditor problems or reservations they may have during audit process in the absence of the management.

Review of financial information

- 3.9 To monitor the integrity of financial statements and the annual report and accounts, half-year report and quarterly reports (if published), and to review significant financial reporting judgements contained in them.
- 3.10 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:-
  - (i) any changes in accounting policies and practices and their appropriateness;
  - (ii) major judgmental issues and estimates;
  - (iii) significant adjustments resulting from audit;
  - (iv) going concern assumptions and qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other legal requirements in relation to financial reporting.
- 3.11 In regard to 3.10 above:-
  - (i) members of the Committee must liaise with the Board, and the Chief Financial Officer and the Committee must meet, at least twice a year, with the Authorised Auditor; and
  - (ii) the 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 Chief Financial Officer, or failing him/her, the staff responsible for the accounting and financial reporting function, Compliance Officer or Authorised Auditor.

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

- 3.12 To review the Company's financial controls, risk management and internal control systems.
- 3.13 To discuss with the management the systems of risk management and internal control and ensure that management has discharged its duty to have effective systems 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.
- 3.14 To consider any findings of major investigations of risk management and internal control matters as delegated by the Board or on its own initiative and management's response.
- 3.15 To ensure co-ordination between the Internal Auditors and Authorised Auditor, 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.
- 3.16 To review the Group's financial and accounting policies and practices.
- 3.17 To review the Authorised Auditor's management letter, any material queries raised by the Authorised Auditor to management in respect of the accounting records, financial accounts or systems of control and management's response.
- 3.18 To ensure that the Board will provide a timely response to the issues raised in the Authorised Auditor's management letter.
- 3.19 To coordinate annual reviews of the effectiveness of the systems of risk management and internal control of the Group and report to shareholders in the Company's Corporate Governance Report.
- 3.20 To conduct annual audit planning reviews with the Internal Auditors.
- 3.21 To review the general adequacy of the accounting systems and the risk management and internal control systems and to discuss with the management on the efficiency of the risk management and internal control in place.

*Connected Transactions under the Listing Rules*

- 3.22 To review and discuss with the Compliance Committee any problems in relation to compliance with the Listing Rules in respect of connected transactions.

- 3.23 In addition to the half-year Committee meeting and year-end Committee meeting which mainly deal with financial results, to hold two more Committee meetings to consider and review connected transaction matters, including but not limited to the database of connected transactions.
- 3.24 In the course of reviewing the financial statements and the auditor's report (including the notes to the accounts), to consider the disclosures on connected transactions in the notes to the accounts and, if necessary, discuss such disclosures (in particular, those connected transactions in respect of which waivers have been granted or otherwise subject to the reporting requirements under the Listing Rules) with the Authorised Auditor and the Legal and Company Secretarial Departments.

Other responsibilities

- 3.25 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.
- 3.26 To satisfy itself that proper business ethics have been followed.
- 3.27 To report all relevant matters to the Board.
- 3.28 To conduct such investigation in relation to matters or activity within its terms of reference.
- 3.29 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 its discussion or recommendations.

**4. AUTHORITY**

- 4.1 The Committee has unrestricted access to the Chairman, the Chief Financial Officer, the Authorised Auditor and Internal Auditors. Internal Auditors shall have the right to contact the Committee without reference to management.
- 4.2 All members of the Committee shall have access to the advice and services of the Company Secretary with a view to ensuring that procedures of the Committee and all applicable rules and regulations are followed.
- 4.3 Any member of the Committee may require access to outside legal or other independent professional advice in connection with his/her duties at the Company's expense upon reasonable request to the Chairman of the Committee and the Chairman of the Company.

4.4 The Committee shall have access to sufficient resources in order to discharge its duties. In the event that the Committee determines that it has insufficient resources, it may make a request for additional resources to the Board through the Company Secretary.

## **5. DISCLOSURES**

5.1 The Committee shall report to the shareholders in the Company's Corporate Governance Report on the work performed during the year in discharging its responsibilities and duties.

5.2 Where the Board disagrees with the Committee's views on the selection, appointment, resignation or dismissal of the Authorised Auditor, the Committee shall prepare a statement, for inclusion in the Company's Corporate Governance Report, explaining its recommendations. The Board shall include in the same report the reason(s) why the Board takes a different view.

## **6. MEMBERS**

6.1 The members of the Committee shall be appointed by the Board from amongst the Non-executive Directors of the Company.

6.2 The majority of the members of the Committee shall be Independent Non-executive Directors and at least one Independent Non-executive Director shall have the appropriate qualifications or expertise in financial management.

6.3 Chairman of the Committee shall be appointed by the Board and shall be an Independent Non-executive Director.

6.4 The Committee shall consist of not less than three members.

6.5 A former partner of the Company's existing Authorised Auditor should be prohibited from acting as a member of the Committee for a period of two years commencing on date of his/her ceasing:-

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

(b) to have any financial interest in the Authorised Auditor

whichever is the later.

6.6 The Board may, from time to time, at its discretion, amend the terms of reference or adopt new terms of reference or change the composition of the members of the Committee.

## **7. MEETING AND PROCEEDINGS**

- 7.1 Unless otherwise stated herein, the meetings are governed by the provisions contained in the Company's Articles of Association for regulating the meetings and proceedings of Directors.
- 7.2 Meetings of the Committee shall be planned in advance at the beginning of each financial year of the Company, and shall not be less than four times a year. The Committee shall also meet as and when necessary to discharge its duties.
- 7.3 Executive Directors, the Authorised Auditor, the Internal Auditors, or other persons who are appropriate may be invited to attend particular meetings to answer specific points or concerns.
- 7.4 The quorum of a Committee meeting shall be any two members who shall be Independent Non-executive Directors.
- 7.5 Meeting could be held in person, by telephone or by video conference. Members of the Committee may participate in a meeting by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 7.6 A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

## **8. ANNUAL GENERAL MEETINGS**

- 8.1 The Chairman of the Committee shall endeavour to attend Annual General Meetings of the Company and be prepared to respond to any shareholder questions on the Committee's activities.
- 8.2 If the Chairman of the Committee is unable to attend an Annual General Meeting of the Company, he shall arrange for another member of the Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any shareholder questions on the Committee's activities.

## **9. MINUTES AND RECORDS**

- 9.1 Proper minutes of Committee meetings shall be kept by the Company Secretary and shall be open for inspection by any Director at any reasonable time on reasonable notice by the Director.
- 9.2 Minutes of Committee meetings shall record in sufficient detail the matters considered by the Committee and decision reached, including any concerns raised by the Committee members or dissenting views.

- 9.3 Draft and final versions of minutes of the Committee shall be circulated to all members of the Committee for their comment and records respectively, within a reasonable time after the meeting is held.

## **10. INCORPORATION OF AMENDMENTS TO THE LISTING RULES**

- 10.1 These terms of reference have been prepared based on the Corporate Governance Code (the “Code”) in Appendix C1 to the Listing Rules.
- 10.2 To the extent that there are any relevant amendments to the Code or the Listing Rules after the date of adoption of these terms of reference which the Company is expected to comply with (the “Relevant Amendments”), the Company will make corresponding changes to these terms of reference as soon as reasonably practicable to incorporate the Relevant Amendments. Pending such change, the Relevant Amendments shall be deemed to have been incorporated into these terms of reference from the date on which they come into effect.
- 10.3 To the extent that there are any relevant amendments to the Code or the Listing Rules after the date of adoption of these terms of reference which are for the Company’s guidance only, such amendments shall only be incorporated into these terms of reference after they have been duly adopted by the Board.

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