



## **Terms of Reference for Audit Committee**

Version date: Adopted on November 24, 2014

Amendments adopted on December 30, 2015

## Terms of Reference for Audit Committee

### 1. OBJECTIVES

- 1.1 The primary objectives of the Audit Committee (the “**AC**”) are to assist and support the board (the “**Board**”) of directors (the “**Directors**”) of the Company in:
- 1.1.1 ensuring that the Company has an effective financial reporting and internal control system in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”);
  - 1.1.2 overseeing the integrity of the Company’s financial statements;
  - 1.1.3 assessing the qualifications of the Company’s external auditor; and
  - 1.1.4 ensuring effective communication among the Company, its internal auditors and external auditors.

### 2. MEMBERSHIP

- 2.1 The AC members shall be appointed by the Board from among the non-executive Directors and shall comprise not less than three members, a majority of whom shall be independent non-executive Directors.
- 2.2 At least one member of the AC shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.
- 2.3 If a regular AC member is unable to act due to absence, illness or any other cause, the chairman of the AC may appoint any non-executive Director (other than a person who is already a AC member) to serve as an alternate AC member.
- 2.4 A former partner of the Company’s existing external auditor is prohibited from acting as a member of the AC for a period of one year from the date of his/her ceasing:
- 2.4.1 to be a partner of the firm; or
  - 2.4.2 to have any financial interest in the firm, whichever is later.

### **3. CHAIRMAN**

- 3.1 The chairman of the AC shall be appointed by the Board and shall be an independent non-executive director. In the absence of the chairman of the AC, the AC members present may elect any of their members who is an independent non-executive Director to chair the meeting.

### **4. SECRETARY**

- 4.1 The company secretary or any other persons so appointed by the Board shall be the secretary of the AC.

### **5. MEETINGS**

- 5.1 The AC may meet together for the despatch of business, adjourn and otherwise regulate their meetings at least four times a year or more frequently as deemed necessary. The chairman of the AC may call for additional meetings at any time at his/her discretion.
- 5.2 Any one of the AC members or the external auditor may request a meeting if they consider it necessary.
- 5.3 The secretary of the AC shall, on the requisition of the members of the AC, summon a meeting of the AC. An agenda and accompanying papers shall be circulated to all AC members (including alternate member(s) that may be appointed pursuant to paragraph 2.3 above) in a timely manner and at least three days before the intended date of a AC meeting insofar as it is practicable.
- 5.4 The Chief Financial Officer, the Head of Internal Audit and representative(s) of the external auditor of the Company may be invited to attend AC meetings. At the discretion of the AC, other persons (including other members of the Board and other senior management) might be invited to attend AC meetings.
- 5.5 At least once a year the AC shall meet with the external auditor without any executive Board member present.
- 5.6 AC members may participate in a meeting by means of a conference telephone or other communications equipment through which all members participating in the meeting can communicate with each other simultaneously and instantaneously. For the purpose of counting a quorum, such member shall constitute presence at a meeting as if those participating were present in person.

## **6. QUORUM**

- 6.1 The quorum necessary for the transaction of business shall be two AC members, one of whom must be an independent non-executive Director. A duly convened meeting of the AC at which a quorum is present shall be competent to exercise all of the authorities, powers and discretions vested in or exercisable by the AC.

## **7. AUTHORITY**

- 7.1 The AC is authorized by the Board to review or investigate any activity within its terms of reference. It is authorized to seek any information it requires from any Director or employees of the Company and/or its subsidiaries (the “**Group**”) and has full and unrestricted access to any information pertaining to the Group and the management. All employees of the Group are directed to co-operate with any request made by the AC.
- 7.2 The AC is authorized by the Board to obtain, at the Company’s expenses, independent professional advice on any matters within its duties and responsibilities, and to secure the attendance of outsiders with relevant experience and expertise at the AC meetings if the AC considers it necessary.
- 7.3 The AC may also exercise such powers as it may consider necessary and expedient so that its duties and responsibilities can be properly discharged.
- 7.4 The AC shall be provided with sufficient resources to perform its duties.

## **8. DUTIES AND RESPONSIBILITIES**

- 8.1 The duties and responsibilities of the AC include the following:

### ***Relationship with the Company’s external auditor***

- 8.1.1 to be primarily responsible for making recommendations 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 its resignation or dismissal;
- 8.1.2 to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The AC should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

8.1.3 to develop and implement policy on engaging 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. The AC should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

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

8.1.4 to monitor integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the AC should focus particularly on:

- (i) any changes in accounting 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 and legal requirements in relation to financial reporting;

8.1.5 regarding paragraph 8.1.4 above:

- (i) members of the AC should liaise with the Board and senior management and the AC must meet, at least twice a year, with the Company’s external auditors; and
- (ii) the AC should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should 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 auditors;

#### ***Oversight of the Company’s financial reporting system, risk management and internal control systems***

8.1.6 to review the Company’s financial controls, internal control and risk management systems;

- 8.1.7 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 the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- 8.1.8 to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 8.1.9 where an internal audit function exists, 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 its effectiveness;
- 8.1.10 to review the Group's financial and accounting policies and practices;
- 8.1.11 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 8.1.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 8.1.13 to report to the Board on the matters set out in this paragraph; and
- 8.1.14 to consider other topics as defined by the Board;

***Other aspects***

- 8.1.15 to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The AC should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- 8.1.16 to act as the key representative body for overseeing the Company's relations with the external auditor.

**9. REPORTING PROCEDURES**

- 9.1 The secretary of the AC shall circulate the draft and final versions of minutes and reports of the AC meetings to all members of the AC for comment and approval within a reasonable time after each meeting.

- 9.2 The secretary of the AC shall maintain as part of the Company's corporate records all approved minutes and reports of the AC and such minutes and reports shall be made available for inspection at any reasonable time on reasonable notice by any Director.
- 9.3 The chairman of the AC should attend annual general meetings of the Company to answer questions from the shareholders. In his/her absence, he/she shall nominate another AC member or failing this his/her duly appointed delegate to attend in his/her stead.

## **10. OTHERS**

- 10.1 The AC shall upload these terms of reference to the website of The Stock Exchange of Hong Kong Limited and the Company's website.