



## **Audit Committee Terms of Reference**

### **1. Functions**

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Asia Financial Holdings Limited (the “Company”) to:

- (a) provide an independent review and supervision of financial reporting, and monitor and review the effectiveness of internal control systems of the Company and its subsidiaries (collectively the “Group”);
- (b) provide liaison among other directors, management, external and internal auditors as regards to their duties and responsibilities relating to financial reporting and internal control and such other matters determined by the Board from time to time;
- (c) ensure adequacy of the scope and coverage of both external and internal audits;
- (d) make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to deal with any questions of resignation or dismissal of the external auditor.

### **2. Membership**

- (a) The Board appoints the Chairperson and members of the Committee and determines their remunerations based on the Remuneration Committee’s recommendation. The Chairperson shall be an independent non-executive director.
- (b) The Committee should have at least three members with the maximum up to five members. The Committee should comprise non-executive directors only and majority of the members should be independent non-executive directors.
- (c) At least one member of the Committee should be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).



- (d) Any former partner of the Company's existing external auditing firm should be prohibited from acting as a member of the Committee for a period of two years from the date of the person ceasing to be a partner of the firm, or to have any financial interest in the firm, whichever is later.
- (e) The tenure of the members is two years and retiring members are eligible for re-appointment.

### **3. Authority**

The Committee is authorised by the Board to:

- (a) investigate any activity within its terms of reference;
- (b) seek any information it may require from any employee, director, agent or advisor, and all such persons will be directed to co-operate with any request made by the Committee;
- (c) consult the external auditor and/or internal auditors without reference to management or to consult management without reference to external auditor and/or internal auditors;
- (d) obtain external legal or other independent professional advice and to approve the related fees at the expenses of the Group, if considered necessary;
- (e) be provided with sufficient resources to discharge its duties;
- (f) delegate appropriate authority to the management (subject to applicable legal or regulatory requirements) for execution of instructions when considered appropriate.

### **4. Responsibilities**

The main responsibilities of the Committee are to:

- (a) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;



- (b) review and implement, develop, where necessary, 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 will reasonably conclude to be part of the audit firm nationally or internationally;
- (c) review and approve the proposed audit fees by external auditor and recommended such fees for the Board’s final approval;
- (d) monitor the integrity of the Company’s financial statements, interim and annual reports and accounts, and to review significant financial reporting judgements and estimates contained in them before submission to the Board for approval. Particular attention should be paid to:
  - (i) appropriateness of accounting policies and practices adopted;
  - (ii) any changes in accounting policies and practices;
  - (iii) major judgmental issues and estimates;
  - (iv) significant adjustments resulting from audit;
  - (v) adequacy of disclosure;
  - (vi) consistency within the financial statements and with prior disclosures;
  - (vii) any significant audit adjustments;
  - (viii) the going concern assumptions and any qualifications;
  - (ix) compliance with current accounting standards; and
  - (x) compliance with the Listing Rules and legal requirements in relation to financial reporting.
- (e) consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts which the Committee 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;
- (f) discuss the problems, findings and reservations arising from the interim and final audits with both the external and internal auditors. If necessary such discussions be conducted in the absence of the management;
- (g) review and monitor the internal auditors’ independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;



- (h) review reports from either the external auditors or the internal auditors and monitor the follow-up actions taken by the management in response to the audit findings from either the external auditor or the internal auditors;
- (i) review recommendations or comments raised by the regulators after their examinations and monitor the follow up actions taken by the management on the recommendations or comments in relation to financial reporting;
- (j) review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response;
- (k) ensure the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (l) review the draft representation letter prior to approval by the Board;
- (m) review the effectiveness of the internal control systems in use by the Group and report such review in the Company's corporate governance report;
- (n) ensure that management has performed its duty to have an effective internal control system in place, including the adequacy of resources, qualifications and experience of staff, training programmes and budget of the accounting, internal audit and financial reporting functions;
- (o) recommend to the Board the appointment and/or removal of the internal auditors;
- (p) establish direct reporting line with the internal auditors of the Company and evaluate the internal audit coverage and review the findings, recommendations and management responses of those audit performed;
- (q) review and approve the internal audit plan annually and any significant changes to the internal audit plan on an ad-hoc basis, audit progress and the professional fees and scope of work of the external consultant, and ensure that the internal audit function (whether in-house or out-sourced) is adequately resourced and has appropriate standing and authority within the Group and to review and monitor its effectiveness;
- (r) discuss with external auditor any recent or anticipated developments in accounting principles or reporting practices that may affect the Group;



- (s) report to the Board on matters that the Committee considers significant or beneficial for the management of the Company to discharge the duties to have an effective internal control system, and to have adequate and qualified staff resources for financial reporting and other accounting practices;
- (t) establish a whistleblowing policy and system for employees to raise concerns, in confidence, about possible improprieties in any matter related to the Group;
- (u) review any confidential and/or anonymous submission by employees of the Group on concerns regarding questionable accounting, possible inappropriateness in financial reporting, suspicious transactions, frauds or other significant or unusual items;
- (v) recommend to the Board any appropriate changes in the responsibilities and terms of reference of the Committee.

## 5. **Meetings**

- (a) The Committee shall meet at least three times a year and members may request a meeting if they think necessary.
- (b) At least two members of independent non-executive directors shall constitute a quorum.
- (c) At the invitation of the Committee, the following persons may attend the meeting:
  - (i) representative from the Internal Audit Department;
  - (ii) representative from the Finance Department;
  - (iii) members of the management team;
  - (iv) other members of the Board; and
  - (v) any other person, if necessary.
- (d) At least twice a year the Committee must meet with the Company's external auditor and at least once a year the meeting with external auditor should be in the absence of management.
- (e) At least twice a year the Committee must meet with the Company's internal auditors and at least once a year the meeting with internal auditors should be in the absence of management.



- (f) The Company Secretary shall be the secretary of the meeting.
- (g) Minutes of the Committee meetings shall be circulated to all members of the Committee and made available upon request to other members of the Board.
- (h) Summary report on the resolved issues, comments or recommendations (if any) should be sent to the Board by the Committee after each Committee meeting.

## **6. Annual General Meeting**

The Chairperson of the Committee shall attend the Annual General Meeting and prepare to response to any shareholder's questions on the Committee's activities.

## **7. Review**

The Board shall review at least annually the adequacy of these Terms of Reference and make appropriate amendments, as and when required. Additional review and amendments could be arranged if there is a request by the Committee members on settling urgent matters.

\* \* \* \* \*