



## **Audit and Risk Committee ~ Terms of Reference**

**(Adopted by the Board in April 2005, revised on 16 March 2015, 16 February 2016 & 22 March 2017)**

### **I. Purpose**

- a) The Audit and Risk Committee (“the Committee”) will assist the Board of Directors of the Company (“the Board”) in overseeing the integrity of Company’s financial statements, financial reporting system, risk management and internal control systems, compliance with legal and regulatory requirements, the external auditors’ qualifications and independence, and the performance of the internal audit function and the external auditors who are ultimately responsible to the Board.
- b) The Committee will keep an open line of communication between the Committee, external auditors, internal auditors and financial management.
- c) In carrying out its responsibilities, the Committee believes that the policies and procedures stated herein should remain flexible in order to adapt efficiently to changing business and regulatory requirements.

### **II. Limitations inherent in the Committee’s Role**

This provision is not intended to override the fiduciary duties of the Directors.

It is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate and are in accordance with applicable accounting principles or other rules and regulations. This is the responsibility of management and the external auditors. It is not the responsibility of the Committee to determine the appropriate level of the Company’s exposure to risk.

### **III. Organization and Independence**

- a) The members of the Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, the majority of whom must be independent non-executive directors.
- b) The Chairman of the Committee shall be an independent director.
- c) If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced below three, the Board shall, within three months of that event, appoint such number of new members as may be required to make up the minimum number of three members.
- d) The term of office of the Committee members should be reviewed by the Board periodically.

### **IV. Authority**

- a) The Committee is authorized by the Board to investigate any activities within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Committee.
- b) The Committee shall have unlimited access to all information and documents relevant to its activities as well as to the internal and external auditors and senior management of the Company.
- c) The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise when necessary, at the expense of the Company.

### **V. Secretary**

The Company Secretary or its representative shall be the secretary to the Committee (the “Committee Secretary”).

## **VI. Meeting Frequency**

The Committee shall meet as frequently as required and at least four times a year.

## **VII. Attendance of meetings by non-members**

Any non-executive Director who is not a member of the Committee shall be entitled to attend Committee meetings; at the invitation of the Committee others, including the Chief Executive Officer, may also attend Committee meetings.

## **VIII. Meeting Minutes**

Following each meeting, the Committee will report the proceedings to the full Board. The Committee Secretary shall promptly circulate draft meeting minutes to the Committee Chairman for review and subsequently to all members of the Committee. Meeting minutes shall be confirmed at the next Committee meeting and tabled as soon as practicable thereafter at a Board meeting.

## **IX. Roles and Responsibilities**

The roles and responsibilities of the Committee shall be:

### Relationship with the external auditors

- a) To act as the key representative body for overseeing the Company's relation with the external auditors.
- b) To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, to review and approve the remuneration and terms of engagement and the engagement letter for the appointment of the external auditors.
- c) To review and monitor the external auditors' independence, objectiveness and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with external auditors the nature and scope of external audit and reporting obligations before an audit commences, and may request the audit plan of the external auditors for review.

- d) To develop and implement policy for engaging external auditors to provide non-audit services. The Committee should report to the Board, identifying and making recommendations for any matters where action or improvement is needed.
- e) To ensure that assistance and co-operation are properly given by the employees of the Company to the external auditors.
- f) To meet formally, at least twice a year, with the external auditors to discuss all matters related to the audit and any other matters which the external auditors may wish to discuss.
- g) The members of the Committee should liaise with the Board and senior management. The Committee must meet, at least once a year, with the external auditors, in the absence of management and the Executive Directors.
- h) The Committee should consider any significant or unusual items that may need to be reflected in the reports and accounts. It should give due consideration to any matters that have been raised by the Company's accounting and financial reporting staff, compliance officer or external auditors.

#### Review of financial information

- i) To monitor the integrity of the Company's financial statements, annual report and accounts, half-year report and, if to be published, quarterly reports.
- j) To review significant financial reporting judgments and estimates contained in the financial statements, accounts and reports for :
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments arising from the audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Hong Kong Stock Exchange Listing Rules and legal requirements in relation to financial reporting.

### Oversight of the Company's risk management and internal control systems

- k) To review arrangements to allow Company employees to raise concerns about possible improprieties in financial reporting, internal control or other matters in confidence. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.
- l) To monitor the effectiveness of the Company's risk management and internal control systems, including in relation to material disputes, compliance, tax and information technology matters and to discuss with management to ensure the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.
- m) To consider major investigation findings and management's response to these findings from risk management and internal control matters as delegated by the Board or on its own initiative.
- n) Monitor compliance with applicable external legal and regulatory requirements and the Code of Ethics for Executive Directors and senior financial officers of the Company. Among other things the Committee shall have access to information regarding Company compliance program activities, operations and results.
- o) To implement, monitor and periodically review whistleblowing policy adopted by the Board from time to time, and report back to the Board.

### Oversight of the Company's financial reporting

- p) To review the Company's financial and accounting policies and practices; the appropriateness and acceptability of judgments involving the application of accounting principles and interpretation of applicable disclosure rules; and compliance with accounting and reporting standards required by law or supported by appropriate professional or other authorities.
- q) To review and discuss the integrity of annual audit of the Company's financial statements.

- r) To review the Company's policies generally with respect to earnings releases; financial performance information and earnings guidance provided to investors and financial markets.
- s) To establish and monitor the implementation of procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing or other matters.
- t) To review the internal controls in relation to financial reporting, including related certification and attestation processes.
- u) To review external auditors' management letter, any material queries raised by the external auditors to management and management's response to accounting records, financial accounts or systems of control.
- v) To ensure that the Board will provide timely responses to the issues raised in external auditors' management letter.
- w) To review external auditor's evaluation of the internal controls system and the Company's statements on internal control system (for the annual report) before endorsement by the Board.
- x) To review any related party transactions, connected party and continuous connected party transactions and conflict of interest situations that may arise within the Company and monitor compliance with applicable rules and regulations.
- y) To consider other topics, as defined by the Board.

#### Relationship with internal auditors

- z) The Committee approves the appointment and dismissal of the head of Internal Audit. The head of Internal Audit is jointly accountable to the Committee, Executive Director and Chief Executive Officer. The Committee members have full and direct access to the head of Internal Audit without the presence of management. Head of Internal Audit has unfettered access to the Committee and its chairman.

- aa) To review and assess the internal audit function's remit, and the appropriateness of internal audit strategies.

To ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has the appropriate standing within the Company.

- ab) To review and monitor the effectiveness of the internal audit function and to conduct meetings separately with the external auditors and internal auditors to discuss related issues, in the absence of the management and the Executive Directors, where necessary.
- ac) To review the scope of the internal audit program for the current year and summary of financial results, and particularly, its implications on risk assessment and management, and discuss the adequacy of the Company's risk management and internal control systems.
- ad) To review with the internal auditors the adequacy of internal controls system and the responsiveness of management in correcting audit-related deficiencies.
- ae) To review the performance of the internal auditors.

#### Regular Review & Performance Evaluation

- af) On an annual basis, the Committee will assess the adequacy of the terms of reference, and, will evaluate the Committee's own performance.