



KWAN ON HOLDINGS

均安控股

**KWAN ON HOLDINGS LIMITED**

(the “Company”)

**TERMS OF REFERENCE AND MODUS OPERANDI OF  
AUDIT COMMITTEE**

(the “Committee”)

*(Updated as of 10 August 2016)*

**Membership**

1. The Committee shall consist of not less than three members appointed by the board (the “**Board**”) of directors (the “**Director(s)**”) of the Company, all of whom shall be non-executive Directors and at least one of whom shall be independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The majority of the Committee must be independent non-executive Directors.
2. The chairman of the Committee shall be appointed by the Board and must be an independent non-executive Directors.

**Frequency and proceedings of meetings**

3. The Committee should meet at least twice a year. Additional meetings should be held as the work of the Committee demands.
4. In addition, the chairman of the Committee may convene additional meetings at his discretion.
5. The quorum for a meeting shall be two members of the Committee.
6. Proceedings of meetings of the Committee shall be governed by article 117 and article 118 of the articles of association of the Company or any other applicable regulations as may be considered appropriate and/or adopted by the Company from time to time.

**Authority**

7. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.
8. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

9. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee will arrange for the Corporate Governance Report in the Annual Report of the Company to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
10. The Committee is to be provided with sufficient resources to discharge its duties.

### **Responsibility**

11. The Committee is to serve as a focal point for communication between other Directors, the external auditor and the internal auditor as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
12. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "**Group**"), and as to the adequacy of the external and internal audits.

### **Duties, powers and functions**

13. The Committee is to:
  - (a) be 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 that auditor;
  - (b) review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the Directors to be included in the annual accounts prior to endorsement by the Board;
  - (c) have familiarity with the financial reporting principles and practices applied by the Group in preparing its financial statements;
  - (d) before audit commencement, review external auditor's independence, objectivity, effectiveness of the audit process and the scope of the external audit, including the engagement letter. The Committee should understand the factors considered by the external auditor in determining their audit scope. The external audit fees are to be negotiated by management, and presented to the Committee for review and approval annually;
  - (e) review the annual and interim financial reports prior to approval by the Board, with particular focus on:
    - (i) any changes in accounting policies and practices;
    - (ii) major judgmental areas;

- (iii) significant adjustments resulting from the audit;
  - (iv) the going concern assumption and any qualifications;
  - (v) compliance with accounting and auditing standards; and
  - (vi) compliance with the listing requirements of the Stock Exchange and legal requirements;
- (f) with regard to (e) above:-
- (i) members of the Committee must liaise with the Board and senior management, and the Committee must meet, at least twice a year, with the external auditor if necessary; 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 staff responsible for the accounting and financial reporting function, compliance officer or auditor;
- (g) review the draft representation letter prior to approval by the Board;
- (h) evaluate the cooperation received by the external auditor, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditor to the Group's needs; inquire of the external auditor as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;
- (i) seek from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;
- (j) discuss with the external auditor any recommendations arising from the audit (if necessary in the absence of management); and review the draft management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control including management's response to the points raised;
- (k) ensure that the Board will provide a timely response to issues raised in the external auditor's management letter;
- (l) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;

- (m) the engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, the prior approval of the Committee is required;
- (n) discuss with management the scope and quality of systems of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget;
- (o) apprise the Board of significant developments in the course of performing the above duties;
- (p) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (q) review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations;
- (r) agree with the Board the Company's policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditor's judgment or independence in respect of an audit;
- (s) review arrangements by which employees, in confidence can raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee is to ensure proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up action;
- (t) act as the key representative body for overseeing the Company's relations with the external auditor;
- (u) report to the Board on above matters; and
- (v) consider other topics, as requested by the Board.

### **Reporting Procedures**

14. The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report to the board on the findings and recommendations of the Committee. At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year.

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