

**SOUTH CHINA FINANCIAL HOLDINGS LIMITED**  
**(the “Company”)**

**AUDIT COMMITTEE – TERMS OF REFERENCE**

Adopted pursuant to the Corporate Governance Code (the “Code”) effective on 1 January 2005 as amended from time to time.

**1. Establishment**

- 1.1 The Audit Committee (the “Committee”) is established by the board of directors (the “Board”) of the Company.
- 1.2 Subject to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Articles of Association of the Company, the procedures of the Committee shall be regulated by the provisions of this set of terms of reference.

**2. Membership**

- 2.1 The Committee members shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, at least one of whom is an independent<sup>1</sup> 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.
- 2.2 The majority of the Committee members should be independent non-executive directors of the Company.
- 2.3 The Committee must be chaired by an independent non-executive director.
- 2.4 The quorum of the Committee meeting shall be two members.
- 2.5 A member who wishes to retire or resign from the Committee should give notice to the Company so that a replacement may be appointed before he leaves.

**3. Administration**

- 3.1 The Committee shall report to the Board on its decisions or recommendations on a regular basis.
- 3.2 The Committee shall hold at least two meetings each financial year. The meeting may be held by means of a conference telephone or other communication facility.

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<sup>1</sup> The Stock Exchange will take into account the factors as stipulated in Rule 3.13 of Chapter 3 of the Listing Rules in assessing the independence of a non-executive director.

- 3.3 The meetings and proceedings are governed by the provisions contained in the Company's Articles of Association for regulating the meetings and proceedings of directors.
- 3.4 The Company Secretary shall be the secretary of the Committee.
- 3.5 The Committee may invite executive directors and external auditors to attend the Committee meeting.

#### **4. Responsibility, Powers and Discretion**

The responsibility of the Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting, risk management and internal control system. The Committee shall have the following responsibilities, powers and discretion:

##### *Relationship with the Company's auditors*

- 4.1 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;
- 4.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 4.3 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 Committee 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*

- 4.4 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 judgements contained in them. In reviewing these reports before submission to the Board, the Committee 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;

4.5 Regarding 4.4 above:-

- (i) members of the Committee should liaise with the Board and the senior management<sup>2</sup> (if any) and the Committee must meet, at least twice a year, with the Company's auditors; and
- (ii) the Committee 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*

- 4.6 to review the Company's financial controls, and unless expressly addressed by the Board itself, to review the Company's risk management and internal control systems;
- 4.7 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;
- 4.8 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;
- 4.9 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;
- 4.10 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 4.11 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;
- 4.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

*Employees to raise concerns on financial reporting improprieties*

- 4.13 to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

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<sup>2</sup> "Senior management" should refer to the same category of persons as referred to in the Company's annual report and is required to be disclosed under Appendix 16 to the Listing Rules.

4.14 to act as the key representative body for overseeing the Company's relations with the external auditor;

*Corporate governance functions*

4.15 to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

4.16 to review and monitor the training and continuous professional development of directors and senior management;

4.17 to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4.18 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

4.19 to review the Company's compliance with the Code and disclosure in the corporate governance report;

*General*

4.20 to report to the Board on the matters in the terms of reference; and

4.21 to consider other topics, as defined by the Board.

**5. Disclosure**

The Committee shall make available on the websites of the Stock Exchange and the Company its set of terms of reference and explain the role of the Committee and the authority delegated to it by the Board.