

# **China Innovative Finance Group Limited**

## Terms of Reference of the Audit Committee

Adopted on 28 April 2004

Revised on 26 March 2012 and 3 February 2016

### **1. Constitution of the Committee**

- 1.1 The Audit Committee shall be appointed by the Board of Directors (the “Board”) and must consist of a minimum of three members (the “Members”).
- 1.2 Membership shall be confined to non-executive Directors only. The majority of which must be independent non-executive Directors (“INEDs”) and at least one INED must be with appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Chairman of the Audit Committee shall be appointed by the Board and must be an INED.
- 1.4 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a Member of the Audit Committee for a period of one year from the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.

### **2. Secretary**

- 2.1 The Company Secretary shall be the secretary of the Audit Committee.
- 2.2 Notwithstanding any other provisions in this terms of reference, the Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Audit Committee.

### **3. Meetings and Quorum**

- 3.1 The Audit Committee shall meet at least twice each year. The Company’s external auditors may request a meeting if they consider that one is necessary.
- 3.2 Notice of any meetings has to be given at least 7 days prior to any such meeting being held provided that if a meeting is called by a shorter notice, it shall be deemed to have been duly called if it is so agreed by a majority of the Members. A Member who attends such a meeting shall deem to agree to the shorter notice. Notice of any adjourned meetings is not required if the adjournment is less than 14 days.
- 3.3 The quorum of the Audit Committee shall be two Members.

- 3.4 Meetings could be held in person, by telephone or by video conference. Members may participate in a meeting by means of a conference telephone or similar communications equipment provided that all persons participating in the meeting are capable of hearing each other.
- 3.5 Resolutions of the Audit Committee at any meetings shall be passed by a majority of votes of the Members present.
- 3.6 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 3.7 Minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all Members for their comment and records respectively, in both cases within a reasonable period of time after the meeting.

#### **4. Attendance and Voting at Meetings**

- 4.1 At least once a year, representatives of the Company's external auditors will meet the Audit Committee without any executive Directors being present, except by invitation of the Audit Committee.
- 4.2 At the invitation of the Audit Committee, the Head of Internal Audit (if there exists such function) or a representative from Internal Audit, the Group Finance Director or Head of Accounts Department (or person occupying the same position), other members of the Board and other persons may attend all or part of any meetings.
- 4.3 Only Members of the Audit Committee are entitled to vote at the meetings.

#### **5. Annual General Meeting**

- 5.1 The Chairman of the Audit Committee or a Member (who must be INED) of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and its responsibilities.

#### **6. Functions and Responsibilities**

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

- 6.1 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.
- 6.2 To review and monitor the external auditor's independence and objectivity and the

effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.

- 6.3 To develop and implement policy on engaging 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 Audit 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*

- 6.4 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 Audit Committee should focus particularly on: -

- (i) any changes in accounting policies and practices;
- (ii) major judgemental 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting.

- 6.5 Regarding 6.4 above:-

- (i) Members of the Audit Committee should liaise with the Board and senior management (i.e. Chief Financial Officer, Deputy Chief Financial Officer and Deputy Risk Management Officer) and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
- (ii) the Audit 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 system*

- 6.6 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 system.
- 6.7 To discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective systems. This discussion should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.
- 6.8 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.
- 6.9 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.
- 6.10 To review the Company's financial and accounting policies and practices.
- 6.11 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.
- 6.12 To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- 6.13 To report to the Board on the matters in this terms of reference.
- 6.14 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 Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.
- 6.15 To act as the key representative body for overseeing the Company's relations with the external auditor.
- 6.16 To disclose, in the corporate governance report, a narrative statement on how the Company has complied with the risk management and internal control code provisions during the reporting period.
- 6.17 To consider other topics, as defined by the Board.

## **7. Reporting**

7.1 The Audit Committee shall report to the Board after each meeting.

## **8. Authority**

8.1 The Audit Committee is authorised by the Board to inspect all accounts, books and records of the Company.

8.2 The Audit Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company, its subsidiaries or affiliates, as may be required for the purposes of discharging its duties.

8.3 A Director as a Member of the Audit Committee may seek independent professional advice in appropriate circumstances at the Company's expense to discharge his/her duties as a Member of the Audit Committee to the Company.

8.4 The Audit Committee shall be provided with sufficient resources to discharge its duties.