



## **ARES ASIA LIMITED**

*(incorporated in Bermuda with limited liability)*

*(Stock code:645)*

### **TERMS OF REFERENCE OF THE AUDIT COMMITTEE (Further revised on 31 December 2018)**

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#### **Definitions**

For purposes of these terms of reference (“Terms”), the following expressions shall have the following meanings unless the context otherwise requires:

Audit Committee	audit committee established by resolution of the Board
Board	the board of directors of the Company
Chairman	the chairman of the Audit Committee
Code	Corporate Governance Code of the Listing Rules
Company	Ares Asia Limited, a company incorporated in Bermuda with limited liability, as it is renamed from time to time
Company Secretary	the company secretary of the Company
Directors	the directors of the Company
Group	the Company and its subsidiaries
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange
Senior Management	the chairman, chief executive officer, company secretary and any other officer of the Group determined by the Board from time to time as senior management of the Company
Shareholder(s)	the shareholder(s) of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited.

#### **1. Membership**

- 1.1 The Audit Committee shall be appointed by the Board and made up of at least three members (“Members”) and always consist of an odd number of Members. The Chairman does not have a second or casting vote.

- 1.2 All Members shall be non-executive Directors with the majority being independent non-executive Directors and at least one of whom shall have appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
- 1.3 The Chairman shall be appointed by the Board and must be an independent non-executive Director. In the absence of the Chairman and/or an appointed deputy, the remaining Members present shall elect one of the Members who shall be an independent non-executive Director to chair the meeting.
- 1.4 A former partner of the Company's existing auditing firm shall be prohibited from acting as a Member for a period of two years from the later date of the person ceasing:
- (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm.

## **2. Secretary**

- 2.1 The Company Secretary of the Company or his nominee shall act as the secretary of the Audit Committee (the "Secretary").
- 2.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the Secretary.

## **3. Quorum, Attendance at Meetings and Resolutions**

- 3.1 The quorum necessary for the transaction of business shall be two Members. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.
- 3.2 Only Members have the right to attend Audit Committee meetings. Other individuals such as the chairman of the Board, other Directors and representatives from the finance function of the Group and professional advisers, may be invited to attend all or part of any meeting as and when appropriate.

- 3.3 The external auditors will be invited to attend meetings of the Audit Committee on a regular basis. However, at least twice a year the Audit Committee shall meet with the external auditors without the executive Directors present (except for the one invited by the Audit Committee).
- 3.4 Members may participate in meetings by means of a telephone or video conference or similar communications equipment by means of which 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 shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

#### **4. Frequency and Conduct of Meetings**

- 4.1 The Audit Committee shall meet at least twice each year. The external auditors or any Member may request a meeting if they consider that one is necessary.
- 4.2 An agenda and accompanying board papers should be sent in full to all Members in a timely manner and at least 3 days before the intended date of a meeting of the Audit Committee (or such other period as agreed by the majority of its Members).
- 4.3 Senior Management is obliged to supply the Audit Committee with adequate information in a timely manner, in order to enable the Audit Committee to make informed decisions. The information supplied must be complete and reliable. Where a Member requires more information than is volunteered by Senior Management, the relevant Member should make additional necessary enquiries. Each Member shall have separate and independent access to the Senior Management.

#### **5. Minutes of Meetings**

- 5.1 The Secretary shall keep all minutes of all proceedings and resolutions of all meetings of the Audit Committee, including details of the names of those present and in attendance. Minutes of meetings of the Audit Committee shall record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised or dissenting views expressed by each Member and participant of any meeting of the Audit Committee.

5.2 Full minutes of the Audit Committee's meetings shall be kept by the Secretary, and which shall be available for inspection at any reasonable time on reasonable notice by any Director or Member.

5.3 Draft and final versions of minutes of such meetings should be sent to all Members for their comment and records, in both cases within a reasonable time after such meetings.

## **6. Annual General Meeting**

6.1 The Chairman should, as far as practicable, attend the annual general meeting and make himself available to respond to any questions on the Audit Committee's activities. In the absence of the Chairman, another Member or failing that a duly appointed delegate of such Chairman or Member should attend the annual general meeting.

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

The Audit Committee shall have the following responsibilities, powers and discretion:

### **Relationship with the Company's External Auditors**

7.1 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.

7.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

7.3 to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved.

7.4 to develop and implement policy on engaging an external auditor to supply non-audit services and report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

7.5 to discuss problems and reservations arising from the interim and final audits, and any matters which the external auditor may wish to discuss (in the absence of Senior Management where necessary).

### **Review of financial information of the Company**

7.6 to monitor integrity of the Group's financial statements, annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and also to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee shall focus particularly on:

- (a) any changes in accounting policies and practices;
- (b) major judgmental areas;
- (c) significant adjustments resulting from audit;
- (d) the going concern assumptions and any qualifications;
- (e) compliance with accounting standards; and
- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting.

7.7 in regard to 7.6 above:-

- (a) Members should liaise with the Board and Senior Management;
- (b) the Audit Committee must meet at least twice a year with the Company's external auditors; and
- (c) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and should also 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**

7.8 to review the Company's financial controls and, unless expressly addressed by a separate board risk committee (or by the board itself) the Company's risk management and internal control systems.

7.9 to discuss the risk management and internal control systems with Senior Management to ensure that Senior 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.

- 7.10 to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and Senior Management's response to these findings.
- 7.11 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 Group, and to review and monitor its effectiveness.
- 7.12 to review the Group's financial and accounting policies and practices.
- 7.13 to review the external auditor's management letter, any material queries raised by the external auditor to Senior Management about the accounting records, financial accounts or systems of control and Senior Management's response.
- 7.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- 7.15 to act as the key representative body for overseeing the Group's relationship with the external auditor.
- 7.16 to review the Company's arrangements which its employees may use to raise concerns, in confidence and/or anonymous, about possible improprieties in financial reporting, internal controls or other matters. The Audit Committee shall ensure that proper arrangements are in place to allow fair and independent investigation of these matters and appropriate follow-up action.
- 7.17 to report to the Board on all matters set out in these Terms.
- 7.18 to consider any other topics, as defined by the Board.
- 7.19 to consider establishing the following procedure to review and monitor the independence of external auditor: -
- (a) consider all relationships between the Company and the external auditor (including non-audit services);

- (b) obtain from the external auditor annually information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
- (c) meet with the external auditor at least twice a year in the absence of management (except for the one executive invited by the Audit Committee), to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.

7.20 to consider agreeing with the Board the Company's policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The Audit Committee should then be in a position to consider whether there has been or appears to be any impairment of the external auditor's judgement or independence for the external audit.

7.21 to ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Audit Committee may wish to consider:-

- (a) whether the skills and experience of the external audit make it a suitable supplier of non-audit services;
- (b) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the external audit because the external auditor provides non-audit services;
- (c) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the external audit; and
- (d) criteria for compensation of the individuals performing the external audit.

**Performing the Company's corporate governance functions**

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

7.23 to review and monitor the training and continuous professional development of Directors and senior management of the Company.

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

7.25 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors.

7.26 to review the Company's compliance with the Code and disclosure in the Corporate Governance Report of the Company.

## **8. Disagreement as to external auditors**

8.1 If the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Audit Committee shall provide a statement explaining its recommendations to the Company for inclusion in the Corporate Governance Report issued by the Company in accordance with the Listing Rules.

## **9. Reporting Responsibilities**

9.1 Without prejudice to the generality of the duties of the Audit Committee set out in these Terms, the Audit Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).

9.2 The Audit Committee shall make whatever recommendations to the Board which it deems appropriate regarding any area within these Terms where action or improvement is needed.

## **10. Authority**

The Audit Committee is authorised by the Board:

10.1 to investigate any activity within the Terms.

10.2 to have access to sufficient resources in order to carry out its duties.

10.3 to seek any information it requires from any employee of the Group in order to perform its duties and all employees will be directed to co-operate with any request made by the Audit Committee.

10.4 to obtain, at the Company's expense, outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

10.5 to be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any external party who advises the Audit Committee.

**11. Terms available**

11.1 The Audit Committee shall make available these Terms on the websites of the Stock Exchange and the Company, thereby explaining its role and the authority delegated to it by the Board.