



**FAR EAST CONSORTIUM INTERNATIONAL LIMITED**

**遠東發展有限公司\***

(the "Company")

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 35)

**TERMS OF REFERENCE  
OF  
AUDIT COMMITTEE  
(the "Committee")**

**1. Membership**

- 1.1 Members (the "Members") of the Committee shall be appointed by the board of directors (the "Board"). The Committee shall consist of not less than three Members from amongst the non-executive directors and independent non-executive directors of the Company. The majority of the Members must be independent non-executive directors, at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise.
- 1.2 The chairman of the Committee shall be appointed by the Board amongst the independent non-executive directors.
- 1.3 A former partner of the Company's existing auditing firm should be prohibited from acting as a Member for a period of 1 year commencing on the date of his ceasing:-
- (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm, whichever is the later.

**2. Secretary**

The company secretary of the Company shall be the secretary of the Committee.

**3. Meetings**

- 3.1 The quorum for decisions of the Committee should be any two Members, of whom one has to be an independent non-executive director.

*\* For identification purposes only*

- 3.2 Unless otherwise agreed by all the Members, notice of at least 14 days shall be given of a regular meeting of the Committee, and such notice shall be sent to each Member, and to any other person invite to attend. For all other meetings of the Committee, reasonable notice shall be given.
- 3.3 In respect of regular Committee meetings, and so far as practicable in all other cases, an agenda and accompanying supporting papers shall be sent to all Members and to other attendees as appropriate at least 3 days before the date of the meeting (or such other period as agreed).
- 3.4 The staff responsible for the accounting and financial reporting function of the Company, and a representative of the external auditors of the Company shall normally attend meetings of the Committee. Other Board members shall also have the right of attendance.
- 3.5 Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
- 3.6 Minutes of the Committee shall be kept by the secretary of the Committee and shall be available for inspection by any Member or the Board at any reasonable time on reasonable notice.
- 3.7 The secretary of the Committee (or his/her delegate) in attendance at the meetings of the Committee shall minute in sufficient detail the matters considered and decisions reached at such meetings. The minutes shall also include any concerns raised by any Member and/or dissenting views expressed.
- 3.8 The secretary of the Committee shall circulate the minutes of meetings of the Committee to all Members of the Board.

#### **4. Duties**

The duties of the Committee shall include the following aspects :-

- (a) To be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal.
- (b) To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences.

- (c) To develop and implement policy on the engaging an external auditors to supply non-audit services. For this purpose, external auditors 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 of 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.
- (d) To monitor integrity of financial statements of the Company and its annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and legal requirements in relation to financial reporting.
- (e) In regard to (d) above :-
  - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external auditors; and
  - (ii) to consider any significant or unusual items that are, or may need to be, reflected the reports and accounts and 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 external auditors.
- (f) Oversight of the Company's financial reporting system, risk management and internal control systems including the following: -
  - (i) to review the Company's financial controls, risk management and internal control systems;

- (ii) to discuss the risk management and internal control system with management to ensure that management has performed its duty to have effective system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function;
  - (iii) 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;
  - (iv) 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;
  - (v) to review the group's financial and accounting policies and practices;
  - (vi) 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;
  - (vii) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
  - (viii) to report to the Board on the matters set out in the Code Provision (in respect of Audit Committee) pursuant to "Appendix 14 – Corporate Governance Code" of the Listing Rules; and
  - (ix) to consider other topics, as defined by the Board.
- (g) 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; and to act as the key representative body for overseeing the Company's relations with the external auditor.
- (h) To establish a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in

confidence, with the audit committee about possible improprieties in any matter related to the Company.

## **5. Authority**

- 5.1 The Committee is authorized by the Board to investigate any activity within its terms of reference.
- 5.2 To seek any information it requires from any employee or executive director, and employees are directed to co-operate with any request made by the Committee.
- 5.3 To obtain advices from outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary at the reasonable expense of the Company.

## **6. Reporting responsibilities**

- 6.1 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in its Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 6.2 The Committee shall report on its role and work performed by it during the year in discharging its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results and system of risk management and internal control, and its other duties set out in the "Corporate Governance Code" contained in Appendix 14 of the Listing Rules, for inclusion in the Company's Corporate Governance Report.
- 6.3 The Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

## **7. Annual general meeting**

The chairman of the Committee or in his absence, another Member or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the Committee's work and responsibilities.

*Note : If there is any inconsistency or discrepancy between the English and Chinese versions of the above terms of reference, the English version shall prevail.*

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