

# **NORTH ASIA STRATEGIC HOLDINGS LIMITED**

**北亞策略控股有限公司\***

**(the “Company”)**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8080)**

## **TERMS OF REFERENCE OF AUDIT COMMITTEE (the “Committee”)**

### **OBJECTIVES**

The Committee is to assist the Company’s board of directors (“the Board”) in:

- (a) ensuring that an effective system of internal control and compliance with the Company’s obligations (including external financial reporting obligations) under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and applicable laws and regulations are in place;
- (b) monitoring the integrity of the Company’s financial statements;
- (c) overseeing the Company’s financial reporting;
- (d) overseeing the independence and qualifications of the Company’s external auditor; and
- (e) overseeing the performance of the Company’s internal audit function and external auditor.

### **MEMBERSHIP**

1. The Committee shall be appointed by the Board amongst the non-executive Directors and shall consist of not less than three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the GEM Listing Rules. The majority of the members shall be independent non-executive directors.
2. The Chairman of the Committee must be appointed by the Board and must be an independent non-executive director.
3. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Committee for a period of one year from the date of his/her ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

*\*For identification purpose only*

## **AUTHORITY**

1. The Committee shall report directly to the Board on its decisions or recommendations, and any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention.
2. The 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.
3. The Committee may seek independent professional advice in appropriate circumstances at the Company's expense to discharge its duties.
4. The Committee shall be provided with sufficient resources to discharge its duties.

## **DUTIES**

The duties of the Committee shall include the following aspects:

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

- (a) 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;
- (b) 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;
- (c) 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***

- (d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and 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 financial reporting, 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 GEM Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (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;
  - (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 and internal control procedures***

- (f) to review the group’s financial controls, internal control and risk management systems;
- (g) to discuss the internal control system with management to ensure that the management has performed its duty to have an effective internal control system. 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;
- (h) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management’s response to these findings;
- (i) 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;
- (j) to review the Group’s financial and accounting policies and practices;
- (k) to review the external auditor’s management letter, any material queries raised by the auditor to the management about the accounting records, financial accounts or systems of control and the management’s response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (m) 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, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (n) to act as the key representative body for overseeing the Company’s relations with the external auditor;

- (o) to report to the Board on the matters set out herein; and
- (p) to consider other topics or matters, as defined or referred to the Committee by the Board from time to time.

## **MEETINGS**

1. The Committee shall meet at least four times a year. Additional meetings should be held if the Committee shall so request. The Company's external auditor may request that a meeting be held if they consider it necessary. Meetings can be held in person, by telephone or by video conference.
2. Notice of any Committee meetings shall be given at least 10 days prior to any such meeting being held, unless all members unanimously waive such notice. Notice of any adjourned meeting is not required if the adjournment is less than 10 days.
3. The quorum for the Committee meeting should be any two members, of whom one must be an independent non-executive director.
4. The company secretary of the Company, or in her absence, her delegate, shall act as the secretary of the Committee and ensure that full minutes are kept of all meetings.
5. The chief financial officer of the Company, the company secretary, the head of internal audit and a representative of the external auditors shall normally attend the Committee meetings, unless requested otherwise by the Committee. Other members of the Board may attend all meetings of the Committee although only the Committee members are entitled to vote at such meetings.
6. Proceedings of the meetings of the Committee shall be governed by the provisions of the Bye-laws of the Company.

## **REPORTING**

1. The secretary of the Committee should keep full minutes of all Committee meetings. Draft and final versions of minutes of meetings of the Committee should be sent to all Committee members for their comment and records within a reasonable time after the meetings.
2. 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.

– END –

*Revised in February 2012*

*(If there is any inconsistency between the English and Chinese versions of this Terms of Reference, the English version shall prevail.)*