



**FIRST SHANGHAI INVESTMENTS LIMITED**  
*(Incorporated in Hong Kong with limited liability)*  
*(Stock Code: 227)*

**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

(amended on 26 August 2016)

The Audit Committee (the “Committee”) is part of the board of directors (the “Board”) of First Shanghai Investments Limited (the “Company”) and exercises its authority, and is accountable to the Board for its performance. These terms of reference record how the Committee will undertake its work.

**(A) Membership**

- (1) The Committee shall be appointed by the Board and shall consist of not less than three members appointed by the Board, all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors.
- (2) The Board shall designate any one of the members who is an independent non-executive director as the chairman of the Committee (the “Committee Chairman”).
- (3) The company secretary of the Company (the “Company Secretary”) shall be the secretary of the Committee.

**(B) Meetings**

- (1) A quorum shall be two Committee members.
- (2) The Committee shall meet as frequently as required but not less than three times a year, and the external auditors must attend at least two meetings per year. Usually the first meeting will be held before the commencement of the Company’s annual audit. The second and third meetings will be held before the finalization of the interim accounts and year-end accounts respectively. At least once a year, the Committee shall meet with the external auditors without the presence of the executive directors.
- (3) In the absence of the Committee Chairman or appointed delegate, the members

present shall elect one of their number as chairman for that meeting.

- (4) Any Committee member may call a meeting of the Committee.
- (5) The Company Secretary shall circulate the draft and final versions of minutes of meetings to all Committee members for their comment and records within one month after the meeting.

### **(C) Functions**

The Committee is appointed by the Board of the Company and shall:-

- (a) ensure that proper internal controls are in place and followed;
- (b) assure that appropriate accounting principles and reporting practices are followed;
- (c) satisfy itself as to the adequacy of the scope of external and internal auditing;
- (d) consider the qualifications and independence of the external auditor and the terms of the appointment;
- (e) act as the key representative body for overseeing the Company's relationship with the external auditor;
- (f) satisfy itself as to compliance with applicable financial and other reporting requirements in all major aspects; and
- (g) handle other matters as the Board may determine from time to time.

### **(D) Authority**

- (1) The Committee is authorized by the Board to investigate any activities within its terms of reference and all employees are directed to cooperate with the Committee.
- (2) The Committee may obtain legal or other independent professional advice where necessary. The Committee shall have unrestricted access to the external auditor, executives or employees including the internal auditor and compliance officer. The external auditor and the internal auditor shall have the right to consult the Committee without reference to the management.
- (3) Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee has right to arrange for the corporate governance report in the annual report of the Company to include an explanation of the Committee's view and the reasons why the Board has taken a different view.

## **(E) Responsibilities**

The Committee shall be responsible:-

### ***Financial Reporting***

- (a) to review and monitor the 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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (b) regarding (a) above:-
  - (i) to liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external auditor;
  - (ii) to consider any significant or unusual items that are, or may need to be, reflected in the reports 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; and
  - (iii) to review the draft representation letter to the external auditor prior to approval by the Board;
- (c) to review the Company's financial reporting system to ensure that they are appropriate and functioning properly;

### ***External Auditor***

- (d) to make recommendation 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;
- (e) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and

- scope of the audit and reporting obligations before the audit commences;
- (f) 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;
  - (g) to review the work of the external auditor and the results of the audit. Recommend appropriate action required on significant control weakness to the Board;
  - (h) to meet with the external auditor on an ad-hoc basis whenever the external auditor consider it necessary to review any accounting, financial reporting or internal control matter with the Committee;

***Risk Management and Internal Control Systems***

- (i) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- (j) to discuss the risk management and internal control systems with the management to ensure that the management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- (k) 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;
- (l) 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;
- (m) to review the Group's financial and accounting policies and practices;
- (n) to review the external auditor's management letter, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;
- (o) to review the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations; and

- (p) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action.

**(F) Reporting**

The Committee shall report to the Board. The Committee Chairman shall present a report to the Board on an annual basis which addresses the work and major findings of the Committee during the year.

*The Chinese version of this document is for reference only.*

*In case of any discrepancies or inconsistency between the English version and Chinese version, the English version prevails.*

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