

## Regent Pacific Group Limited

### Revised terms of reference of the Audit Committee

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#### Constitution

1. By the written resolutions passed on 11 March 1999, the board of directors (the “**Board**”) of Regent Pacific Group Limited (the “**Company**”) and collectively with its subsidiaries, the “**Group**”) established a committee of the Board to be known as the Audit Committee (the “**Committee**”) with written terms of reference (the “**Terms of Reference**”) which deal clearly with its authority and duties. The Terms of Reference were revised on 23 September 2004 and further revised on 18 March 2005, 5 January 2007, 13 March 2012 and 17 April 2015.

#### Principle

- 1A. The Board should establish formal and transparent arrangements to consider how it will apply the financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company’s auditors. The Committee is to assist the Board in: (i) providing an independent review of the effectiveness of the Company’s financial reporting process; (ii) evaluating and determining the nature and extent of the risks the Board is willing to take in achieving the Company’s strategic objectives and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems; and (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

In particular, the Committee should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Committee on the effectiveness of these systems.

#### Membership

2. The Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom should be independent directors as appointed under The Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in compliance with the criteria for independence set out therein. At least one of the members should be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

The independent non-executive directors should, apart from their directors' fees and permitted shareholdings, be independent of the management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement as a member of the Committee.

3. The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.
4. The quorum necessary for the transaction of the business at the meetings of the Committee shall be two voting members.
5. 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 1 year from 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.

### **Secretary**

6. The secretary of the Company shall be the secretary of the Committee (the "**Secretary**").

### **Meetings and resolutions**

7. The Chief Executive Officer, the Finance Director, the Head of Internal Audit (if appointed) and a representative of the external auditors shall normally attend meetings of the Committee. Other members of the Board shall also have the right of attendance, with the agreement of the Committee. However, separate private meetings with the internal and external auditors with no executive directors present may be held as and when the Committee considers it useful and necessary.
8. The Committee shall meet as and when necessary but not less than twice a year for the purposes of reviewing the Company's interim and annual financial statements. The Committee shall also meet to review the Company's quarterly reports if such reports are prepared for publication. The external auditors may request a meeting if they consider that one is necessary. Save for the review and approval of the Company's financial statements, resolutions may also be passed by way of written resolutions to be circulated to and signed by all members of the Committee in the manner prescribed in the Company's Articles of Association.

## **Authority**

9. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any director and/or employee, and all directors and employees are directed to co-operate with any request made by the Committee.
10. The Committee should be provided with sufficient resources to perform its duties. It is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
11. The Committee is authorised by the Board to discuss with the management and the external auditors, as appropriate, earnings press releases and financial information and earnings guidance provided to analysts and to rating agencies, subject to the restrictions set out in the Listing Rules.

## **Duties**

12. The duties of the Committee shall be:
  - (a) to consider and make recommendations to the Board on the appointment, re-appointment and removal of the external auditors, to consider and approve the remuneration and terms of engagement of the external auditors, and to be primarily responsible for any questions of resignation or dismissal of the external auditors;
  - (b) to discuss and agree with the external auditors, before the audit commences, the nature and scope of the audit and the reporting obligations and to ensure co-ordination where more than one audit firm is involved;
  - (c) to review and monitor from time to time the quality of the external auditors, including their independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
  - (d) to develop and implement policy on engaging the external auditors to supply non-audit services and to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
  - (e) to 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, before submission to the Board, significant financial reporting judgements contained in them, focusing particularly on:
    - (i) any changes in accounting policies and practices;
    - (ii) major judgemental issues and estimates;
    - (iii) adequacy of disclosure, particularly on related party transactions, unusual (material and non-recurring) items and potential effect of any significant risks and exposures;
    - (iv) significant adjustments resulting from the audit;

- (v) the going concern assumptions and any qualifications;
- (vi) compliance with accounting standards (and in particular accounting standards adopted in the financial year for the first time);
- (vii) compliance with the Listing Rules and other regulatory, industry and legal requirements in relation to financial reporting; and
- (viii) consistency of financial information;
- (f) to discuss with the auditors the problems and reservations arising from the interim and annual audits, and any matters the auditors may wish to discuss (in the absence of the management where necessary);
- (g) to review the external auditors' management letter, any material queries raised by the auditors to the management about accounting records, financial accounts or systems of control and the management's response and to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (h) to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to oversee and review the Company's risk management and internal control systems on an ongoing basis; and to ensure that a review of the effectiveness of the Group's risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report in the manner required under the Listing Rules (which should cover all material controls, including financial, operational and compliance controls);
- (i) to have meetings with management as the Committee deems appropriate to discuss significant risk exposures facing the Company and to discuss the steps that management has taken to monitor and control such exposures, including the Company's guidelines and policies governing risk assessment and risk management;
- (j) to oversee the Company's performance of commitments made by the management in the course of regulatory examinations, make recommendations and monitor the Company's compliance with the Committee's recommendations;
- (k) to receive periodic reports from management as to the administration of and compliance with, The Corporate Governance Code in Appendix 14 to the Listing Rules;
- (l) to review and act upon all requests for waivers of The Corporate Governance Code in favour of any executive officer or director of the Company;
- (m) 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 (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions);
- (n) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;

- (o) to review on an annual basis the need for an internal audit function and, where such a function exists, to review the internal audit programme, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and maintains an appropriate standing within the Group, and to review and monitor the effectiveness of the internal audit function;
  - (p) to review the Group's operating, financial and accounting policies and practices;
  - (q) to consider other matters as defined by the Board; and
  - (r) to report on all of the above matters to the Board, including those set in the code provisions with respect to audit committee as contained in The Corporate Governance Code.
13. With respect to Clause 12(c) above, the Committee may consider establishing the following procedure to review and monitor the independence of external auditors:
- (a) consider all relationships between the Company and the audit firm (including non-audit services);
  - (b) obtain from the audit firm annually information about policies and processes for maintaining independence and monitoring compliance with the relevant requirements, including those for rotation of audit partners and staff; and
  - (c) meet with the auditors, at least annually, in the absence of the management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditors may wish to raise.
14. For the purpose of Clause 12(d) above, "external auditors" include 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.
15. With respect to Clause 12(d) above, the Committee should ensure that the external auditors' provision of non-audit services does not impair the external auditors' independence or objectivity. When assessing the external auditors' independence or objectivity in relation to the non-audit services, the Committee may wish to consider:
- (a) whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services;
  - (b) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditors provide non-audit services;
  - (c) the nature of the non-audit services, the related fee levels and the fee levels individually and in total relative to the audit firm; and
  - (d) the criteria for compensation of the individuals performing the audit.

16. Regarding Clause 12(e) above:
- (a) members of the Committee should liaise with the Board, the Company's senior management and the person appointed as the Company's qualified accountant and the Committee must meet, at least twice a year, with the Company's auditors; and
  - (b) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such report and accounts, and it should give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors.
- 16A. With respect to the annual review of the Group's risk management and internal controls systems referred to in Clause 12(h) above, the Committee should, in particular, consider:
- (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
  - (c) the extent and frequency of communication of monitoring results to the Board (or board committee(s)) which enables it to assess control of the Company and the effectiveness of risk management;
  - (d) significant control failings or weaknesses that have been identified during the period, and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
  - (e) the effectiveness of Company's processes for financial reporting and compliance with the Listing Rules.
17. The Committee may wish 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 Committee should then be in a position to consider whether there has been or appears to be any impairment of the auditors' judgement or independence for the audit.
18. The Committee should also:
- (a) review the arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters (please refer to Clause 20A below) and ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action; and
  - (b) act as the key representative body for overseeing the Company's relations with the external auditors.

19. The Chairman of the Committee or, in his absence, another member of the Committee or, failing this, the Chairman's duly appointed delegate shall attend the annual general meetings of the Company and make himself available to answer questions at the such annual general meetings. The Committee should ensure the external auditors attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.
20. The Committee is not responsible for certifying the Company's financial statements or guaranteeing the independent auditor's report nor is the Committee responsible for guaranteeing the Company's compliance with laws, regulations or its compliance policies or programs. The fundamental responsibility for the Company's financial statements and disclosures and its compliance with laws and regulations rests with management and the external auditors.

### **Whistleblowing policy**

- 20A. The Committee should consider establishing 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 Committee about possible improprieties in any matter related to the Company.

### **Reporting**

21. The Committee shall report back to the Board on its decisions, recommendations or any significant matters arising from the Committee's work, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).
- 21A. 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 the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 21B. The Committee shall make the disclosures, in the Corporate Governance Report, in respect of its responsibilities in its review of the Company's financial reports, and, unless expressly addressed by a separate risk committee, or by Board itself, in respect of the Company's risk management and internal control systems in the manner required under the Listing Rules.

## **Minutes**

22. Full minutes of the Committee's meetings should be kept by the Secretary or otherwise a duly appointed secretary at the individual meetings. The Secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

## **Education**

23. The Company is responsible for providing the Committee with educational resources related to accounting principles and procedures, current accounting topics pertinent to the Company and other material as may be requested by the Committee. The Company will assist the Committee in maintaining appropriate financial literacy.

## **Internal Audit**

24. With regard to Internal Audit, the Committee shall:
  - (a) review and evaluate the process used in establishing the annual Internal Audit plan;
  - (b) consider, in consultation with the director of Internal Audit, the audit scope and role of the internal auditors;
  - (c) review and evaluate the scope, risk assessment, and nature of the Internal Audit plan and any subsequent changes, including whether or not the Internal Audit plan is sufficiently linked to the Group's overall business objectives and management's success and risk factors;
  - (d) consider and review with management and the Internal Audit:
    - (i) Significant findings during the year and management's responses thereto, including the timetable for implementation of the recommendations to correct weaknesses in risk management and internal control;
    - (ii) Any difficulties encountered in the course of internal audits, including any restrictions on the scope of work or access to required information;
    - (iii) Any changes required to the planned scope of the audit plan of the Internal Audit; and
    - (iv) The internal audit department's budget, staffing and qualifications; and
  - (e) confirm and assure the independence of the Internal Audit.



## **Committee performance review**

25. With regard to the Committee's performance review, the Committee shall:
- (a) perform a review and evaluation, at least annually, of the performance of the Committee by whatever means the Committee determines appropriate; and
  - (b) review and reassess, at least annually, these Terms and Reference and, if appropriate, recommend proposed changes to the Board.

## **Publication**

26. The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website.

Adopted by the Board of Directors  
on 11 March 1999  
and revised on 23 September 2004  
and further revised on 18 March 2005,  
5 January 2007, 13 March 2012 and 17 April 2015

Note:

These Terms of Reference comprise the English version and its Chinese translated version. In case of any discrepancies or inconsistencies between the two versions, the English version shall always prevail.