



Hong Kong Finance Group Limited
(the "Company")

Terms of reference of the Audit Committee (the "Committee") of the Board (the "Board") of Directors (the "the Directors") of the Company

1. Constitution

1.1 The Committee is established pursuant to a resolution passed by the Board at its meeting held on 4 September 2013.

2. Membership

2.1 Members of the Committee shall be appointed by the Board from amongst the non-executive Directors of the Company (including independent non-executive Directors of the Company) and shall consist of not less than three members, a majority of whom should be independent. At least one of the members shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.10(2) of the Rules (the 'Listing Rules') Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2.2 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of at least one (1) year from the date of his ceasing:

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- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm, whichever is later.

2.3 The Chairman of the Committee shall be appointed by the Board or elected among the members of the Committee and shall be an independent non-executive Director.

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2.4 The company secretary of the Company shall be the secretary of the Committee. In the absence of the secretary of the Committee, Committee members present at the meeting may elect among themselves or appoint another person as the secretary for that meeting.

2.5 The appointment of the members of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee. An appointment of Committee member shall be automatically revoked if such member ceases to be a member of the Board.

3. Proceedings of the Committee

3.1 **Notice:**

(a) Unless otherwise agreed by all the Committee members, a meeting shall be called by at least seven days' notice. Such notice shall be sent to each member of the Committee, and to any other person invited to attend. Irrespective of the length of notice being given, attendance of a Committee member at a meeting constitutes a waiver of such notice unless the Committee member attending the meeting attends for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the grounds that the meeting has not been properly convened.

(Note: Regular meetings should be called by at least 14 days' notice: cf: paragraph A.1.3 of Appendix 14 to the Listing Rules)

(b) A Committee member may and, on the request of a Committee member, the secretary to the Committee shall, at any time summon a Committee meeting. Notice shall be given to each Committee member in person orally or in writing or by telephone or by email or by facsimile transmission at the telephone or facsimile or address or email address from time to time notified to the secretary by such Committee member or in such other manner as the Committee members may from time to time determine.

(c) Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.

(d) Notice of meeting shall state the purpose, time and place of the meeting. An agenda together with other documents which may be required to be considered by the members of the Committee for the purposes of the meeting should generally be delivered to all Committee members seven days (and in any event not less than three days) before the intended date of the Committee meeting (or such other period as all the Committee members may agree).

3.2 **Quorum:** The quorum of the Committee meeting shall be two members of the Committee.

3.3 **Attendance:** The Company's staff having accounting and financial reporting functions, the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation) and representative(s) of the external auditors shall normally attend meetings of the Committee. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without the presence of members of the Executive Board and the management of the Company.

3.4 **Frequency:** Meetings shall be held at least twice annually and more frequently if circumstances requires. The external auditors may request the Chairman of the

Committee to convene a meeting, if they consider that one is necessary.

3.5 Meetings may be held in person, or by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.

4. Written resolutions

4.1 A resolution in writing signed by all the Committee members shall be as valid and effectual as if it had been passed at a meeting of the Committee and may consist of several documents in like form each signed by one or more of the Committee members.

5. Alternate Committee members

A Committee member may not appoint any alternate.

6. Authority of the Committee

6.1 The Committee may exercise the following powers:

(a) to seek any information it requires from any employee of the Company and its subsidiaries (hereinafter collectively referred to as "**Group**") and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;

(b) to monitor whether the Group's management has, in the performance of their duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time determined by the Board or a committee thereof);

(c) to investigate any activity within these terms of reference and all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;

(d) to review and make recommendation on the Group's internal control procedures and system;

(e) to review the performance of the Group's employees in the accounting and internal audit department;

(f) to request the Board to convene a shareholders' meeting (if necessary) for purposes of revoking the appointment of any Director if there is evidence showing that the relevant Director has failed to discharge his duties properly and such dismissal does not contravene any law or regulation in Hong Kong;

(g) to request the Board to take all necessary actions, including convening an

extraordinary general meeting, to replace and dismiss the auditors of the Group in accordance with the Companies Ordinance and the Articles of Association of the Company;

(h) to obtain outside legal or other independent professional advice at the expenses of the Company on any matters within these terms of reference as it considers necessary and to secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary;

(i) to have access to sufficient resources in order to perform its duties;

(j) where there is any disagreement between the Committee and the Board on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report an explanation of the Committee's recommendation and the reasons why the Board has taken a different view;

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(k) to review annually these terms of reference and their effectiveness in the discharge of its duties and to make recommendation to the Board any changes it considers necessary; and

(l) to exercise such powers as the Committee may consider necessary and expedient so that their duties under section 7 below can be properly discharged.

6.2 The Committee should be provided with sufficient resources to discharge its duties.

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7. Duties

7.1 The duties of the Committee shall be:

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Relationship with the Company's 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 other 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 audit 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 the 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;
- (e) in reviewing these reports mentioned in (d) above 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 the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;and to provide advice and comments thereon to the Board;
- (f) in regard to (e) above:
 - (i) members of the Committee should liaise with the Board and senior management of the Group and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Committee should 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;

Oversight of the Company's financial reporting system and internal control procedures

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) to discuss the internal control system with management to ensure that 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;
- (i) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (j) 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;

- (k) to review the Group's financial and accounting policies and practices;
- (l) 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;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters set out above;
- (o) 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;
- (p) to act as the key representative body for overseeing the issuer's relations with the external auditor;
- (q) to consider other matters, as defined or assigned by the Board from time to time.

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8. Veto rights of the Committee

The Committee has the following veto rights. The Group cannot implement any of the following matters which have been vetoed by the Committee:

- (a) to approve any connected transaction within the meaning of the Listing Rules which requires an independent shareholders' vote (unless the approval of such connected transaction is made conditional on the obtaining of the approval of the independent non-executive Directors and the independent shareholders); and
- (b) to employ or dismiss the Group's financial controller or the internal audit manager.

9. Minutes and records

9.1 The secretary shall, at the beginning of each meeting, ascertain and record the existence of any conflicts of interest and minute them accordingly. The relevant member of the Committee shall not be counted towards the quorum and he must abstain from voting on any resolution of the Committee in which he or any of his associates has a material interest, unless the exceptions set out in note 1 to Appendix 3 to the Listing Rules apply.

9.2 Full minutes of Committee meetings shall be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the Committee meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting (generally, meaning not more than 14 days after the meeting).

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10. Reporting responsibilities

The Committee shall report to the Board after each meeting.

11. Annual general meeting

11.1 The chairman of the Committee shall attend the annual general meeting of the Company and be prepared to answer questions at the annual general meeting on the Committee's activities and their responsibilities.

11.2 Company's management should ensure the external auditor 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 auditor independence.

12. Continuing application of the articles of association of the Company

The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

13. Powers of the Board

The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Corporate Governance Code set out in Appendix 14 to the Listing Rules or if adopted by the Company, the Company's own code of corporate governance practices), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

14. Publication of the terms of reference of the Committee

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 website of the Company and on the website of the Stock Exchange.

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Adopted on 4 September 2013