



## **Advanced Card Systems Holdings Limited**

**龍傑智能卡控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2086)**

### **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

(Effective on 1 January 2016)

#### ***Formation***

1. The Committee was formed pursuant to the board resolution of Advanced Card Systems Holdings Limited (the “Company”) passed on 28 September 2004.

#### ***Composition and Quorum***

2. The members of the Committee shall be appointed by the board of directors (the “Board”) of the Company amongst the non-executive directors of the Company. A majority of the Committee members should be independent non-executive directors.
3. Members : The Committee shall consist of not less than 3 members.
4. Quorum : 2
5. The chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director.
6. The meetings and proceedings are governed by the provisions contained in the articles of association of the Company for regulating meetings and proceedings of directors.

#### ***Attendance at meetings***

7. Attendees shall normally include Committee members, the head of accounting and finance department, the head of internal audit department (where an internal audit function exists), a representative of the external auditors and those with meaningful input to the Committee’s activities. However, at least once a year the Committee shall meet with the external and internal auditors (if any) without executive board members present.

\* For identification only

### *Authority*

8. The Committee is authorised by the Board to investigate activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
9. The Committee 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.

### *Duties*

10. The duties of the Committee shall be:
  - (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 and ensure co-ordination where more than one audit firm is involved;
  - (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;
  - (d) to monitor integrity of the Company's financial statements and annual report and accounts, interim 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 accounting policies and practices;
    - (ii) major judgmental areas;
    - (iii) significant adjustments resulting from audit;
    - (iv) the going concern assumptions and qualifications;
    - (v) compliance with accounting standards; and

- (vi) compliance with the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited 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 auditor; and
  - (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;
- (f) to review the Company's financial controls, risk management and internal controls systems;
- (g) to discuss risk management and the internal control systems with management to ensure that management has performed its duty to have effective systems. 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 risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (i) to discuss problems and reservations arising from the interim review and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- (j) 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 controls and management's response;
- (k) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (l) 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;
- (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 in provision of terms of reference of the Committee;

- (o) to review the Group's financial and accounting policies and practices;
- (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;
- (q) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (r) to consider other topics as defined by the Board.

#### ***Secretary of the Committee***

11. The head of accounting and finance department of the Company shall be the secretary of the Committee. The secretary of the Committee or in his/her absence, his/her representative or any one Committee member, shall be the secretary of the meetings of the Committee.

#### ***Frequency of meetings***

12. Meetings shall be held not less than twice a year. The external auditor may request for additional meeting(s) as deemed necessary.

#### ***Reporting procedures***

13. Full minutes of the Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Committee meetings should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.