

PUBLIC FINANCE LIMITED

Audit Committee of the Board

Terms of Reference

1. Objectives of the Committee

- a. To assist the Board of Directors in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Company and its subsidiaries (collectively, “the Group”).
- b. To report and make recommendations in connection with the financial reporting process and internal control system of the Group to the Board of Directors.

2. Members of the Committee

- a. The Committee shall be appointed by the Board of Directors from amongst the Non-Executive Directors of the Company and shall consist of not less than three members. The majority of the Committee members shall be Independent Non-Executive Directors.
- b. The Committee must comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee.
- c. A former partner¹ shall observe a cooling-off period of at least 3 years before being appointed as a member of the Committee.
- d. Where there is a specific need for information or clarification on any matters, the relevant staff may be invited to attend the specific part(s) of the Committee’s meeting(s).

¹ This applies to all former partners of the audit firm and/or the affiliate firm (including those providing advisory services, tax consulting, etc.)

3. Chairman

The Chairman of the Committee shall be appointed by the Board of Directors and must be an Independent Non-Executive Director with a background in accounting, banking or other relevant financial industry. The Chairman should not also be the chairman of the Board of Directors or any other committees.

4. Secretary

The Company Secretary or the designated personnel from Company Secretarial Department of Public Bank (Hong Kong) Limited (“PBHK”), or in his/her absence, any person appointed by the Committee shall be the secretary of the Committee.

5. Quorum

To constitute a quorum, at least half of the number of Committee members must be present and shall comprise two Independent Non-Executive Directors.

6. Authority

- a. The Committee is authorised by the Board of Directors to investigate any activity within its terms of reference. It shall have the resources which are required to perform its duties and have full and unrestricted access to any information and documents pertaining to the Group provided that such access and/or the disclosure of the information and documents by the Group is permitted, not restricted and/or prohibited under all applicable laws in the relevant jurisdiction, whether in or outside of Hong Kong. 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.
- b. The Committee is authorised by the Board of Directors to obtain legal or other independent professional advice at the Company’s expense and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

7. Functions

- a. To draw up, review and update periodically a written charter for the Board of Directors' approval indicating the Committee's composition, authority and duties, as well as the manner of reporting to the entire Board of Directors;
- b. To evaluate and approve the appointment, replacement, dismissal, performance and remuneration of the Head of Internal Audit Department as proposed by Human Resources Department of PBHK and escalate to the Board of Directors for noting;
- c. To approve the recruitment and dismissal of the Managerial Staff (Assistant Manager or above) of Internal Audit Department;
- d. To evaluate and approve the performance and remuneration of the Managerial Staff (Assistant Manager or above) of Internal Audit Department as proposed by Human Resources Department of PBHK;
- e. To review the internal audit charter drawn up and updated periodically by the Head of Internal Audit Department, and recommend to the Board of Directors for approval;
- f. To consider the appointment, reappointment and removal of the external auditors, the audit fees, terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors in the Group;
- g. To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable auditing standards in Hong Kong and discuss with the external auditors, where necessary, before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- h. To review and concur the provision of non-audit services to the Group by the external auditors and/or a firm or corporation affiliated with such external auditors for recommendation to the Board of Directors for approval;

- i. To monitor integrity of the Group's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them, before recommending to the Board of Directors for approval, focusing particularly on:
 - i) any changes in accounting policies and practices;
 - ii) major judgemental areas;
 - iii) significant adjustments resulting from the audit;
 - iv) the going concern assumptions and any qualifications;
 - v) compliance with accounting standards; and
 - vi) compliance with legal and regulatory requirements in relation to financial reporting.
- j. To discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary), and consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- k. To review the adequacy, soundness and effectiveness of the Group's financial controls, risk management systems, internal controls, anti-corruption measures, whistleblowing policy and governance processes implemented in the Group;
- l. To discuss and review the risk management and internal control systems and ensure that management has discharged its duty to have effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;
- m. To approve the audit plan, training plan and internal audit framework, review the effectiveness of internal audit programme, ensure co-ordination between the internal and external auditors as well as the regulatory authorities, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness;

- n. To review regular reports provided by Internal Audit Department, summarising the results of the internal audit function's work, including overall conclusions or assessments, key findings, material risks and issues, and follow-up of management's resolution of identified issues;
- o. To note any significant disagreements over audit issues between the Head of Internal Audit Department and the Group's management, irrespective of whether these issues/lapses have been resolved, in order to identify the impact of such disagreements that may have on the audit process or findings;
- p. To establish a mechanism to review and assess the performance and effectiveness of the Internal Audit function;
- q. To review the investigation reports to ensure that appropriate remedial actions are taken timely by management to address and resolve the identified key issues/significant lapses in controls and procedures;
- r. To review significant recommendations made by Internal Audit Department and management plans for their implementation;
- s. To review the external auditors' management letters, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response, and to ensure that the Board of Directors will provide a timely response to the issues raised in the external auditors' management letter;
- t. To report to the Board of Directors on the work performed by the Committee and its significant findings, and the progress made by the senior management in implementing any remedial actions to address deficiencies identified in the Group's internal control systems (including those identified by internal and external auditors, the Audit Committee itself or the Hong Kong Monetary Authority);
- u. To establish a whistleblowing policy and system for employees of the Group and those who deal with the Group to raise concerns, in confidence and without the risk of reprisals, about possible improprieties in financial reporting, internal control or other matters related to the Group and to ensure that proper

arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action;

- v. To act as the key representative body for overseeing the Group's relation with the external auditors and the regulatory authorities; and
- w. To consider other topics, as defined by the Board of Directors.

8. Frequency of Meetings

Meetings shall be held not less than four times a year. The external auditors may request a meeting if they consider that one is necessary.

9. Attendance at Meetings

The Chief Executive and the Head of Internal Audit Department shall normally attend meetings. A representative of the external auditors may be invited to attend the meeting as and when necessary, and would normally attend meeting to address issues on the audit of financial statements. The Committee shall have the authority to invite other directors to attend the meeting. The Committee shall meet with the external and/or internal auditors without the presence of management at least once a year.

10. Voting Requirements

Decision arising at any meeting shall be decided by a majority of votes. In case of a tie in voting, the Chairman shall have a second or casting vote.

11. Reporting Procedures

Minutes must be prepared to record fully all decisions and matters dealt with by the Committee and tabled to the Board of Directors for noting. A record of the attendance at each meeting should be maintained.