



## **FIRST PACIFIC COMPANY LIMITED**

### **第一太平有限公司**

*(Incorporated with limited liability under the laws of Bermuda)*

Website: <http://www.firstpacific.com>

(Stock Code: 00142)

## **AUDIT AND RISK MANAGEMENT COMMITTEE (FORMERLY KNOWN AS AUDIT COMMITTEE)**

### **TERMS OF REFERENCE**

#### **1. OBJECTIVES**

The Audit and Risk Management Committee (the “Committee”) of First Pacific Company Limited (the “Company”) is established to assist the board of directors of the Company (the “Board”) in (i) ensuring that effective systems of risk management and internal control are in place; (ii) ensuring compliance with the Company’s obligations (including external financial reporting obligations) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), as modified from time to time (the “Listing Rules”) or other codes, rules and regulations as may be prescribed by the Hong Kong Securities and Futures Commission or any other applicable regulatory authority from time to time (the “Applicable Rules”); and (iii) overseeing the integrity of the financial statements of the Company.

The Committee will also be directly responsible on behalf of the Board for (i) the selection, oversight and determination of remuneration for the Company’s external auditor; (ii) the assessment of the independence and qualifications of the external auditor; and (iii) the oversight of the performance of the Company’s risk management and internal audit function.

#### **2. MEMBERSHIP**

- i. The Committee is appointed by the Board and will comprise of a minimum of three (3) members, all of whom shall be non-executive directors of the Company.
- ii. The majority of the members of the Committee (the “Members”) will be independent non-executive directors, at least one of whom shall have the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

- iii. The chairman of the Committee (the “Chairman”) will be appointed by the Board and must be an independent non-executive director of the Company.
- iv. All Members are appointed by the Board and can be removed by the Board at its sole discretion. The Board may from time to time vary the composition of the Committee as may be required by the Listing Rules or other Applicable Rules.
- v. A former partner of the Company’s existing auditing firm is prohibited from acting as a Member of the Committee for a period of one (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 later.
- vi. The Company Secretary or his/her designee shall be the secretary of the Committee.

### **3. MEETINGS**

#### **i. Frequency**

The Committee shall meet at least twice a year, at the appropriate time prior to the finalization of the interim and year end accounts. In addition, the Committee’s Chairman may convene additional meetings at such other time as the Committee may determine appropriate to perform its responsibility.

#### **ii. Notice**

Notice of any meetings of the Committee will have to be given at least fourteen (14) days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. The requisite notice period is not required if a committee meeting is adjourned for less than 14 days.

#### **iii. Quorum**

The quorum of the Committee shall be any two Members, either present in person or by means of telephone conference or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.

iv. Attendance

- a. Other than the Committee Members, the following persons will normally attend the meetings of the Committee, unless requested otherwise by the Committee:–
  1. External auditor;
  2. Senior Financial Officer; and
  3. Company Secretary.
- b. Other members of the Board may attend meetings of the Committee although only Members are entitled to vote at such meetings.
- c. The Committee may invite any person who has specific responsibility for, or interest or expertise in, the subject under review to attend a meeting of the Committee.
- d. In the absence of the Chairman and/or an appointed deputy, the remaining Members present shall elect one of the Members to chair the meeting.
- e. The Chairman or in his/her absence, another Member (who must be an independent non-executive director) shall attend the annual general meetings of the Company and be prepared to respond to the questions from shareholders on the activities of the Committee and its responsibilities.

v. Resolutions

- a. Resolutions of the Committee shall be passed by a majority of votes.
- b. A resolution in writing signed by all the Members shall be as valid and effectual as if it has been passed at a meeting of the Committee duly convened and held.

vi. Minutes

- a. The Secretary of the Committee shall keep full minutes of all Committee meetings. Draft minutes of meetings shall be sent to all Members for their comments within a reasonable time after the meeting. Final version of the minutes, duly signed by the Chairman, shall be sent to all Members for their records.
- b. Final version of the minutes of all Committee meetings will also be sent to other members of the Board as soon as practicable.

#### **4. AUTHORITY**

- i. The Committee shall report directly to the Board on its decision or recommendation, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).
- ii. The Committee is authorized to inspect all accounts, books and records of the Company and the Committee shall have the right to require management of the Company to furnish all information requested by the Committee as may be required for the purposes of performing its duties.
- iii. The Committee is authorized to obtain external legal and other independent professional advice and to secure the assistance from external parties with relevant experience and expertise where it considers necessary. The Committee shall have the sole authority to approve all reasonable related fees and terms of engagement, which fees shall be borne by the Company.
- iv. The Committee will be provided with sufficient resources to perform its duties. The Committee is authorized to seek information from any employee, director, agent or advisor, and to obtain external independent professional advice, if considered necessary, at the expense of the Company.

#### **5. DUTIES**

The duties of the Committee shall include the following aspects:–

##### *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 terms of engagement of the external auditor, and to respond to 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 will 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 shall report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) To act as the key representative body for overseeing the Company's relations with the external auditor;

Review of the Company's financial information

- (e) To monitor 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 will 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 the Listing Rules and legal requirements in relation to financial reporting;
- (f) Regarding (e) above:–
  - (i) Members of the Committee will liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) the Committee will consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it will 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, risk management and internal control systems

- (g) To review the Company's financial controls, risk management and internal control systems;
- (h) To discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion will 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 risk management and 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;

*Oversight of the Company's arrangements on financial investigation*

- (n) To review arrangements and systems (such as the establishment of a whistleblowing policy) whereby employees of the Company can use, in confidence, to raise concerns with the Committee about possible improprieties in financial reporting, internal control or any other matters relating to the Company. The Committee will ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

*Others*

- (o) To report to the Board on the matters in these Terms of Reference; and
- (p) To consider other topics, as defined by the Board.

Notes:

- (1) The Committee will establish the following procedures to review and monitor the independence of external auditors:–
  - (i) consider all relationships between the Company and the audit firm (including non-audit services);
  - (ii) obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
  - (iii) meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise.
- (2) The Committee will consider the Company's policies on hiring employees or former employees of the external auditors and monitoring the application of these policies, in order to assess whether there has been or appears to be any impairment of the auditor's judgment or independence for the audit.

- (3) The Committee will ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee will consider:
- (i) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;
  - (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
  - (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and
  - (iv) criteria for compensation of the individuals performing the audit.

## **6. REPORTING PROCEDURES**

- i. The Committee shall report to the Board on its decisions or recommendations, either orally or in writing, at regular meetings of the Board or more frequently if required, unless there are legal or regulatory restrictions on its ability to do so (such as a restriction on disclosure due to regulatory requirements).
- ii. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company shall 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.
- iii. The meetings and proceedings of the Committee shall be governed by the provisions of the Company's Bye-laws for regulating the meetings and proceedings of directors.

## **7. LANGUAGE**

If there is any discrepancy between the English and Chinese versions of these Terms of Reference, the English version shall prevail.

## **8. PUBLICATION OF THESE TERMS OF REFERENCE**

A copy of these Terms of Reference will be uploaded to the respective websites of the Company and the Stock Exchange.

*Revised on 30 March 2016*