

**FAR EAST HOTELS AND ENTERTAINMENT LIMITED**

遠東酒店實業有限公司

*(Incorporated in Hong Kong under the Companies Ordinance)*

**(Stock Code: 0037)**

**Terms of Reference of the Audit Committee**

**Constitution**

1. The Board of Directors (the "Board") of Far East Hotels and Entertainment Limited (the "Company") has established a committee known as the Audit Committee with authority and duties as described below.

**Membership**

2. The members of the Audit Committee shall be appointed by the Board and shall consist of not less than three members. The majority of the committee members must be independent non-executive directors, at least one of whom with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules").
3. The Chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive director.
4. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of one 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**

5. The Company Secretary of the Company shall be the secretary of the Audit Committee. The secretary of the Audit Committee or in his/her absence, his/her representative or any one designated by the Chairman of the Audit Committee,

shall be the secretary of the meetings of the Audit Committee.

### **Meetings**

6. The Audit Committee shall meet at least twice a year. Additional meetings should be held as the work of the Audit Committee demands.
7. The quorum for Audit Committee shall be two members, including at least one independent non-executive director.
8. Only members of the Audit Committee have the right to attend and vote at the meetings.
9. Notice of any meetings of the Audit Committee has to be given seven days prior to any such meeting being held, unless all members unanimously waive such notice.
10. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other and participating in a meeting pursuant to this provision shall constitute presence in person at such meeting.
11. Draft and final versions of minutes of the meetings should be sent to all committee members for their comment and records within a reasonable time after the meetings.

### **Attendance**

12. The Chairman of the Audit Committee may request that members of management and representatives of the external auditors be present at meetings of the Audit Committee. At least once a year the Audit Committee shall meet with the external auditors without executive Board members present.

## **Authority**

13. The Audit Committee is authorized by the Board:
- (a) To investigate any activity within its terms of reference and to seek any information it requires from any employee. All employees are directed to co-operate with any requests made by the Audit Committee; and
  - (b) 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**

14. The Audit Committee shall have the following duties:

A. *Relationship with the Company's external auditors*

- (a) To be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal.
- (b) To review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. It should discuss with the external auditors 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 auditors" 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 of all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

*B. Review of the Company's financial information*

(d) To monitor integrity of financial statements of the Company and its 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 Audit 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 any qualifications;
- v. compliance with accounting standards; and
- vi. compliance with the Listing Rules and legal requirements in relation to financial reporting.

(e) Regarding (d) above:

- i. members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's external auditors; and
- ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and 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.

*C. Oversight of the Company's financial reporting system, risk management and internal control systems*

(f) To review the Company's financial controls, risk management and internal control systems.

- (g) To discuss the risk management and internal control system 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 review the Group's financial and accounting policies and practices.
- (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 control and management's response.
- (k) To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- (l) 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 and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and to act as the key representative body for overseeing the Company's relations with the external auditors.
- (m) To report to the Board on the matters of corporate governance and the relevant code provision of the Listing Rules; and
- (n) To consider other topics, as defined by the Board.

### **Reporting responsibilities**

15. Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in its Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
16. The Audit Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

### **Availability and Update of the Terms of Reference**

17. These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. The Listing Rules) in Hong Kong.

Adopted on 1 April 1999 and last revised on 1 April 2016