

PALADIN LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 495 and 642 (Preference Shares))

Paladin Limited (the “Company”)

Terms of reference of the Audit Committee (“Committee”) of the Board of Directors (“Board”) of the Company

Revised on 26 March 2012

1. Membership

- 1.1. The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, a majority of whom should be independent. A quorum shall be two members.
- 1.2. The Chairman of the Committee shall be appointed by the Board and should be an independent director.
- 1.3. The Company Secretary or such other person as appointed by the Board shall be the secretary of the Audit Committee.
- 1.4. In the event that the Board includes a former partner of the Company’s existing auditing firm, such Director shall be prohibited from acting as a member of the Audit Committee for a period of 1 year commencing on the later of the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm.

2 Meetings

- 2.1 The Committee shall meet at least twice annually to discuss on and review the draft half-year or annual report before submission to the Board. External auditor may request the chairman of the Committee convene a meeting if they considered appropriate. A representative of the external auditors shall normally attend meetings.
- 2.2 Unless otherwise agreed by all members of the Committee, notice of each meeting of the Committee shall not be less than seven days. Notice of meetings shall be sent by the chairman or the secretary of the Committee to all members in written form or other manner. Notice of meeting shall specify the purpose, date, time and venue of the meeting.

- 2.3 Agenda together with relevant documents of the meeting shall be sent to all members three days before the meeting for their perusal.
- 2.4 The quorum for meetings of the Committee shall be two members
- 2.5 The Finance Director, the Head of Internal Audit (or other department head in charge of similar function with other job title) and a representative of the external auditor shall normally attend meetings and any other members of the Board are entitled to attend such meetings. However, at least once a year the Committee shall meet with the external auditor and internal auditor (if any) without executive Directors present.
- 2.6 Resolutions of the Committee shall be passed by a majority of votes which could also be passed by way of unanimous written resolutions by all members. Meetings could be held in person, by telephone or by video conference.

3. Authority of the Committee

3.1 The Committee shall be authorized :

- (a) to request any employee of the Company and its subsidiaries (together the “Group”) and professional consultants (including external auditor) to submit report, attend Committee meeting providing the required information and answering questions;
- (b) to monitor and see if the management of the Group has infringed the policies as established by the Board and the applicable laws and regulations (including the Listing Rules of the Stock Exchange and those rules set by the Board) when performing its duties;
- (c) to investigate all suspected fraud and request management to do investigation into the matters and provide report;
- (d) to review the measures and system of internal control of the Group;
- (e) to make recommendation to the Board on the improvement of the measures and system of internal control of the Group; and
- (f) to obtain independent professional advice at the expense of the Company if it considers necessary.

3.2 The Committee shall be provided with sufficient resources to perform its duties.

4. Duties of the Committee

4.1 The Committee shall be responsible for the followings duties:

Relationship with external auditor of the Company

- (a) to recommend 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, and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences, and to ensure co-ordination if more than one external auditor was engaged to participate in the audit process;
- (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 act as the key representative body for overseeing the Company's relations with the external auditor.

Review of financial information of the Company

- (e) to monitor integrity of the Company's financial statements, 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 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;
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (vii) the fairness and reasonableness of the arrangement of connection transactions and its impact on the earnings of the Group, compliance with the terms of the agreements, if any, entered into for the relevant connected transactions;
- (viii) the presentation and disclosed information of financial statements whether they can raise the level of transparency of the Group and enable investors to understand fairly the financial conditions of the Company and of the Group; and
- (ix) cash flows condition of the Group;

and give advice and opinion to the Board of the Company on the above.

(f) regarding (e) 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 external auditor; 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;
- (g) to discuss problems and reservations arising from the interim review and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary).

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

- (h) to review the Company's financial controls, internal control and risk management systems;

- (i) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (j) 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;
- (k) 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;
- (l) to review the Group's financial and accounting policies and practices;
- (m) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) to prepare the draft report of works carried out during the period for submission to the Board for review and its summary report for publication in the interim and annual report of the Group;
- (p) to report to the Board on the matters in the "Corporate Governance Code" contained in Appendix 14 to the Listing Rules (as amended from time to time);
- (q) 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; and
- (r) to consider other topics, as defined by the Board.

5. Minutes of the Meetings

- 5.1 Minutes of the Committee meetings shall be kept by the secretary. Draft and final versions of the minutes of the Committee meetings will be sent to all members of the Committee within a reasonable time after the meeting for their comments and records. Such minutes shall be open for inspection by Directors.

6. Reporting Responsibilities

- 6.1 The Committee chairman shall report to the Board at the next Board meeting on the Committee's decisions, findings and recommendations after each meeting.

7. Other

- 7.1 Regulations on proceedings of the Board as stipulated in the Bye-Laws of the Company not mentioned above shall apply to proceedings of the Committee.