

Midland Holdings Limited

Terms of Reference for Audit Committee

1. Overall Objectives

The audit committee is appointed by the board of directors to assist the board in discharging its oversight responsibilities. The audit committee will oversee the financial reporting process to ensure the quality, transparency and integrity of published financial information. The audit committee will also review the effectiveness of the company's internal financial control, internal control and risk management system, the independent audit process including recommending the appointment and assessing the performance of the external auditors, the company's process for monitoring compliance with laws and regulations affecting financial reporting.

In performing its duties, the committee will maintain effective working relationships with the board of directors, management, and the external auditors. To perform his or her role effectively, each committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the committee's responsibilities and of the company's business, operations and risks.

2. Authority

The board authorises the audit committee, within the scope of its responsibilities, to :

- 2.1 Perform activities within the scope of its terms of reference.
- 2.2 Engage independent counsel and other advisers as it deems necessary to carry out its duties.
- 2.3 Ensure the attendance of company officers at meetings as appropriate.
- 2.4 Have unrestricted access to members of management, employees and relevant information.
- 2.5 Be responsible for the appointment, compensation, retention and oversight of the work of the external auditor.
- 2.6 Reviewing policies for the provision of non-audit services by the external auditors.

3. Organisation

3.1 Membership

- 3.1.1 The board of directors will nominate the audit committee members and the chairman of the audit committee.
- 3.1.2 The audit committee will comprise not less than three members and at least three members shall be independent non-executive directors (“INED”) of the company.
- 3.1.3 A quorum of any meeting will be two members one of whom must be an INED.
- 3.1.4 The secretary of the audit committee will be the company secretary.

3.2 Meetings

- 3.2.1 Only committee members are entitled to attend meetings. The audit committee may invite such other persons (eg. Finance Director, Financial Controller and external audit engagement partner) to its meeting.
- 3.2.2 The external auditors may be invited to make presentations to the audit committee as appropriate.
- 3.2.3 Meetings shall be held not less than two times a year and should correspond with the company’s financial reporting cycle.
- 3.2.4 Special meetings may be convened as required.
- 3.2.5 Notice of any meetings has to be given at least 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. Notice of any adjourned meeting is not required if adjournment is for less than 14 days.
- 3.2.6 Resolutions of the committee shall be passed by a majority of votes.
- 3.2.7 A resolution in writing signed by all the members of the committee shall be as valid and effectual as if it had been passed at a meeting of the committee duly convened and held.
- 3.2.8 The secretary shall circulate the agenda and supporting documentation to the audit committee members a reasonable period in advance of or as soon as practicable before each meeting.
- 3.2.9 The secretary shall circulate the minutes of meetings to members of the committee. Minutes shall be kept by the secretary of the committee and shall be open for directors’ inspection.
- 3.2.10 The audit committee will meet with the external auditors at least once a year.

3.3 Annual General Meeting

The Chairman of the audit committee or in his/her absence, another member (who must be an INED) of the audit committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the audit committee's activities and their responsibilities.

4. Roles and Responsibilities

The audit committee will :

4.1 Internal Control

- 4.1.1 Evaluate whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk.
- 4.1.2 Understand the internal controls systems implemented by management for the approval of transactions and the recording and processing of financial data.
- 4.1.3 Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.
- 4.1.4 Consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response.
- 4.1.5 Review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response; ensure that the board will provide a timely response to the issues raised in the external auditor's management letter.
- 4.1.6 Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the external auditors have been implemented by management.
- 4.1.7 Discuss with the management the system of internal control and ensure the management has discharged its duty to have an effective internal control system, in particular, the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget,

4.2 Financial Reporting

- 4.2.1 Gain an understanding of the current areas of greatest financial risk and how these are being managed.
- 4.2.2 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.
- 4.2.3 Review the interim and annual financial statements and review significant financial reporting judgements contained in them prior to submission to the board. Focus particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions and any qualifications, compliance with accounting standards and compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting.
- 4.2.4 Meet with the management and the external auditors to review the financial statements, the key accounting policies and judgements and the results of the audit.
- 4.2.5 Consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function or external auditors.

4.3 Compliance with Laws and Regulations

- 4.3.1 Review the effectiveness of the system for monitoring compliance with laws and regulations.
- 4.3.2 Obtain regulate updates from management regarding compliance matters that may have a material impact on the company's financial statements or compliance policies.
- 4.3.3 Be satisfied that all regulatory compliance matters, related to the business of the company, have been considered in the preparation of the financial statements.

4.4 Working with external auditors

- 4.4.1 Review the professional qualification of the auditors.
- 4.4.2 Consider the independence and objectivity of the external auditors and any potential conflicts of interest.
- 4.4.3 Review on an annual basis the performance of the external auditors, particularly the effectiveness of the audit process in accordance with applicable standard and make recommendations to the board for the appointment, reappointment or termination of the appointment of the external auditors and to approve their remuneration and terms of engagement.
- 4.4.4 Review the external auditors' proposed audit scope and approach for the current year in the light of the company's present circumstances and changes in regulatory and other requirements.
- 4.4.5 Discuss with the external auditors the appropriateness of the accounting policies applied in the company's financial reports and whether they are considered as aggressive, balanced or conservative.
- 4.4.6 Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately; ensure the auditors have access to the chairman of the audit committee when required.
- 4.4.7 Review policies for the provision of non-audit services by the external auditor. For this purpose, external auditors shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally.

4.5 Reporting Responsibilities

- 4.5.1 Report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 4.5.2 Prepare any reports required by law or listing rules or requested by the board, including a report on the audit committee's activities and duties to be included in the section on corporate governance in the annual report.

Revised on 1 January 2009