

## Midland Holdings Limited (the “Company”) (Stock Code: 1200) Terms of Reference for Audit Committee

### 1. Overall Objectives

The audit committee (the “Committee”) is appointed by the board of directors (the “Board”) to assist the board in discharging its oversight responsibilities. The Committee will oversee the financial reporting process to ensure the quality, transparency and integrity of published financial information. The 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, 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 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 will nominate the Committee members and the chairman of the Committee.
- 3.1.2 The 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 Committee will be the company secretary.

#### **3.2 Meetings**

- 3.2.1 Only Committee members are entitled to attend meetings. The Committee may invite such other persons (eg. Finance Director, Financial Controller and external audit engagement partner) to attend its meeting.
- 3.2.2 The external auditors may be invited to make presentations to the 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. In case of an equality of votes the chairman shall have a second or casting vote.
- 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 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 Committee will meet with the external auditors at least twice a year.

### **3.3 Annual General Meeting**

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

## **4. Roles and Responsibilities**

### **4.1 Internal Control**

4.1.1 Review the Company's financial controls, internal control and risk management systems and 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 major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings.

4.1.5 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 and ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.

4.1.6 Ensure co-ordination between the internal and external auditors where an internal audit function exists, 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.

- 4.1.7 Review the group's financial and accounting policies and practices.
- 4.1.8 Discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. 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.
- 4.1.9 Report to the Board on the matters in the code provisions for Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and consider other topics, as defined by the Board.
- 4.1.10 Consider other topics, as defined by the Board.
- 4.1.11 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 to act as the key representative body for overseeing the Company's relations with the external auditor.

## **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 and 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 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.

4.2.4 Regarding 4.2.3 above, 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 auditors.

4.2.5 Regarding 4.2.3 above, the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report 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.

### **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 Review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences.

4.4.3 Review and monitor on an annual basis the performance of the external auditors, particularly the effectiveness of the audit process in accordance with applicable standards and be primarily responsible for making recommendations to the Board for the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal.

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 Committee when required.
- 4.4.7 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.

#### **4.5 Reporting**

- 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 Committee's activities and duties to be included in the section on corporate governance in the annual report.

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Note: The Chinese version of this document is for reference only. In case of any discrepancies or inconsistency between the English version and Chinese version, the English version prevails.