

TERMS OF REFERENCE OF AUDIT COMMITTEE

1. Establishment

- 1.1 In accordance with Clause 3.9.1 of the Code of Corporate Governance, there shall be constituted an Audit Committee to assist the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.
- 1.2 The membership, resources, responsibilities and authorities (composition, functions and operation) of the Audit Committee are stipulated in these terms of reference which may be amended by the Board as and when required.

2. Composition

- 2.1 The members of the Audit Committee shall consist of not less than three non executive directors appointed by the Board. The Audit Committee shall, as far as possible, be composed of a majority of independent directors.
- 2.2 The Chairperson of the Audit Committee shall be appointed by the Board and shall, as far as possible, be an independent non-executive director. The Chairperson of the Board shall not be eligible to be appointed as Chairperson of the Audit Committee.
- 2.3 The Chairperson of the Audit Committee should have substantial accounting or financial experience.
- 2.3 The Board shall have the power at any time to remove any member from the Audit Committee and to fill any vacancy created by such removal.
- 2.4 The Company Secretary shall be the secretary to the Audit Committee.
- 2.5 It is appropriate that members of the Committee have a range of different backgrounds, skills and experiences, having due regard to the operational, financial and strategic risk profile of the company.
- 2.6 The effect of ceasing to be a Director of the Board, is the automatic termination of appointment as a member of the Committee.

3. Term of Office

- 3.1 The term of office of the members of the Audit Committee shall be one year.
- 3.2 Members may thereafter be re-appointed by the Board, but no members will serve for 5 consecutive years on the Audit Committee.

4. Reporting and Accountability

- 4.1 The Chairperson of the Audit Committee shall account to the Board for its activities and make recommendations to the Board concerning the adoption of the annual and interim financial statements and any other matter arising from the Committee's responsibilities.
- 4.2 The Chairperson of the Audit Committee, or, in his/her absence, an alternate member shall attend the annual meeting to answer questions concerning matters falling within the ambit of the Audit Committee.

5. Responsibilities

5.1 *In relation to Auditors and External Audit*

- 5.1.1 The Audit Committee must recommend to the Board which firm(s) should be appointed as external auditor(s). If the Audit Committee recommends to the board change of external auditors, several firms should be screened and the Committee should obtain written or verbal proposals to enable it to make its recommendation.
- 5.1.2 The Audit Committee will:
- i. Evaluate the independence and effectiveness of the external auditors and consider any non-audit services rendered by such auditors as to whether this substantively impairs their independence;
 - ii. Evaluate the performance of the external auditor(s);
 - iii. Discuss and review, with the external auditor(s) before the audit commences, the auditor(s) engagement letter, the terms, nature and scope of the audit function, procedure and engagement, the audit fee, and ensure co-ordination (where more than one audit firm is involved) and maintenance of a professional relationship between them;
 - iv. Consider negotiable procedures, subject to agreement, beyond minimum statutory and professional duties – there are certain minimum non-negotiable procedures required from the external auditor(s);
 - v. Agree to the timing and nature of reports from the external auditor(s);
 - vi. Make suggestions as to problem areas that audit can address;
 - vii. Consider any accounting treatments, significant unusual transactions, or accounting judgements, that could be contentious;
 - viii. Identify key matters arising in the current year's management letter and satisfy itself that these are being properly followed up;
 - ix. Consider whether any significant ventures, investments or operations are not subject to internal audit;
 - x. Review overall audit role, explore objectives, minimise duplication, discuss implications of new auditing standards and ensure that the external audit fee will sustain a proper audit and provide value for money;

- xi. Obtain assurance from the external auditor(s) that adequate accounting records are being maintained.

5.2 *In relation to Financial Statements*

- 5.2.1 The Audit Committee will examine and review the financial statements, the interim reports, the accompanying reports to shareowners, the preliminary announcement of results and any other announcement regarding the company's results or other financial information to be made public, prior to submission and approval by the Board. In so doing the Committee shall focus particularly on:
 - i. Any changes in accounting principles and practices;
 - ii. Major judgemental areas;
 - iii. Significant adjustments resulting from the audit;
 - iv. The basis on which the company has been determined a going concern;
 - v. Capital adequacy;
 - vi. Internal control;
 - vii. Compliance with accounting standards, local and international, compliance with legal requirements;
 - viii. The implementation of new systems;
 - ix. Tax and litigation matters involving uncertainty;
 - x. Reviewing special documents such as prospectuses as and when prepared.
- 5.2.2 Review the annual report and accounts taken as a whole, to ensure they present a balanced and understandable assessment of the position, performance and prospectus of the company;
- 5.2.3 Review the external auditor(s) proposed audit certificate;
- 5.2.4 Discuss problems and reservations arising from the audit, and any matters the auditor(s) may wish to discuss (in the absence, where requested by the Audit Committee, of executive directors, and any other person who is not a member of the Audit Committee);
- 5.2.5 Review the external auditors' management letter and management response.

5.3 *In relation to Internal Control and Internal audit*

- 5.3.1 An important role of the Audit Committee will be to monitor and supervise the effective functioning of the internal control systems so as to ensure that the roles and functions of the external audit and internal control are sufficiently clarified and co-ordinated so as to obtain an

objective overview of the operational effectiveness of the company's systems of internal control and reporting. This will include:

- i. Reviewing the effectiveness of the company's systems of internal control, including internal financial control and maintaining effective internal control systems;
- ii. Reviewing the adequacy of corrective action taken in response to significant internal control findings;
- iii. Ensuring that the Audit Committee receives reports on significant matters with regard to the internal control function;
- iv. Ensuring that the external auditor coordinates its work with those responsible for internal control functions in order to avoid duplication of work;
- v. Ensuring that those responsible for internal control function have access to the Audit Committee independent of management.
- vi. Ensuring that proper and adequate accounting records are kept;
- vii. Controlling the overall operational and financial reporting environment;
- viii. Safeguarding company's assets against unauthorised use or disposal;
- ix. Directing and supervising investigations into matters within its scope, for example, evaluations of the effectiveness of the company's internal control, cases of employee fraud, misconduct or conflict of interest.

6. Meetings

- 6.1 Meetings of the Audit Committee shall be held as necessary as the Audit Committee considers, but it will normally meet not less than four times a year.
- 6.2 Reasonable notice of meetings and the business to be conducted shall be given to the members of the Audit Committee and any other person as may be requested to be in attendance.
- 6.3 The quorum for decisions of the Audit Committee shall be any two members of the Audit Committee present throughout the meeting of the Audit Committee.
- 6.4 The Managing Director, the Finance & Administration Manager, senior audit partner in charge of the external audit and any person with internal control responsibilities may be called to be in attendance at meetings of the Audit Committee and shall have unrestricted access to the Chairperson or any other member of the Audit Committee as is required in relation to any matter falling within the ambit of the Audit Committee.
- 6.5 The Chairperson, at his/her discretion, may invite other executives, representatives of the external auditors or other external advisors to attend and to be heard at meetings of the Audit Committee;

7. Proceedings

7.1 The secretary shall take minutes of the meetings. Minutes shall be signed by the Chairperson or the chair of the Committee meeting and the Secretary. Minutes of all meetings shall be circulated to all the members of the committee. The Committee shall make a report to the Board as and when necessary but at least once a year. The agenda for each such Board meeting should provide an opportunity for the Chairperson of the Audit Committee to report orally, if necessary, on any matters of importance as well as on the Committee's findings and recommendations.

8. Authority of the Audit Committee and resources available to it

8.1 Notwithstanding the above the Audit Committee, in carrying out its tasks under these terms of reference:

8.1.1 Is authorized to investigate any activity within its terms of reference, or any matters specifically requested by the Board;

8.1.2 May, at the discretion of the Audit Committee, require other employees of the company to attend meetings or parts of meetings;

8.1.3 May consult with and seek any information it requires from any employees, and all employees shall be required to co-operate with any request made by the Audit Committee in the course of its duties;

8.1.4 Shall at least once a year meet with external auditors without any executive member of the Board in attendance;

8.1.5 Shall at least once a year meet with persons responsible for internal control without any executive member of the Board in attendance; and

8.1.6 Shall at each meeting consider whether any failures of internal control or compliance matters (that are brought to the Committee's attention) are significant and should be immediately reported to the Board.

9. General

9.1 The Audit Committee, in carrying out its tasks under these terms of reference, may obtain such outside or other independent professional advice, as it considers necessary to carry out its duties.

9.2 The Board shall ensure that the Audit Committee will have access to professional advice both inside and outside the company in order for it to perform its duties.

9.3 These terms of reference may be amended as required, subject to the approval of the Board.

Approved by the Board of the Central Depository & Settlement Co. Ltd on 28th June 2006