

# **AMS Public Transport Holdings Limited (the “Company”)**

## **Term of Reference for Audit Committee (“AC”)**

### **1. Role of the AC**

The role of the AC is to review the completeness, accuracy and fairness of the Company’s reports and financial statements and provides assurance to the Board that they comply with the adopted accounting standards and the rules of Stock Exchange of Hong Kong Limited (“HKEx”) and legal requirements. The AC also annually reviews the adequacy and effectiveness of the internal control and risk management systems. It reviews the work done by the internal and external auditors, the relevant fees and terms, the results of audits performed by the external auditors and the appropriate actions required on significant control weaknesses. It also considers the adequacy of resources, the qualifications and experience of staff in respect of the Group’s accounting and financial reporting function, and their training programmes and budget.

### **2. Membership**

The AC is a committee of the Board and comprises at least three Independent Non-executive Directors (“INEDs”) of the Company, who shall be independent of management and free of any relationship which could interfere with the exercise of their independent judgment.

At least one member of the AC should have significant, recent and relevant financial experience.

A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the AC for a period of 1 year commencing on 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.

The appointment to a member of the AC is made by the chairman of the Board (“Chairman”).

### **3. Meeting**

- (i) The AC shall meet at least twice a year and when requested by the Chairman or any INED. The AC must meet the external auditors at least twice a year. The external auditors may also request additional meetings;
- (ii) The AC may invite or require other persons to attend meetings where appropriate to assist in the effective discharge of its duties. The Group financial controller, together with some representatives of the external auditors, will normally be in attendance at meetings, or for selected agenda items as considered appropriate by the chairman of the AC;

The chairman of the AC will be available to any member of senior management, to discuss any matters of concern, in relation to financial reporting matters, internal control concerns or compliance with the Group’s legal and regulatory obligations, in the widest sense, should this be considered necessary by those individuals;

## **AMS Public Transport Holdings Limited (the “Company”) Term of Reference for Audit Committee (“AC”)**

- (iii) The chairman of the AC will also be available in person at the annual general meetings to answer shareholders’ questions about the activities of the AC;
- (iv) A quorum for the AC is any two AC members;
- (v) Although normally decisions are reached on a consensus, in the event of a disagreement, decisions on any matter are made by the majority, with the chairman of the meeting having a second, casting vote in the event of a tie. An AC member who remains opposed to a proposal after a vote can ask for his or her dissent to be noted in the minutes;
- (vi) Where a disagreement between the AC and the Board cannot be resolved, the AC has the right to report the issue to the shareholders as part of the report on activities in the Annual Report; and
- (vii) Where the Board disagrees with the AC’s view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the AC explaining its recommendation and also the reason(s) why the Board has taken a different view.

### **4. Authority**

The AC is authorized by the Board to undertake any activity within its terms of reference. It acts in respect of Group businesses and is authorized to obtain outside legal or the independent professional advice, at the Company’s expenses, and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The AC is entitled to sufficient resources from the Company to undertake its duties.

The AC will have whatever access it required to the Company’s personnel, information and documents and it has the ability to direct any special investigations deemed necessary.

### **5. Responsibilities of the AC**

#### *a. Relationship with the Company’s auditors*

- (i) to be primarily responsible for making recommendations 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;
- (ii) to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The AC should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (iii) 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

## **AMS Public Transport Holdings Limited (the “Company”) Term of Reference for Audit Committee (“AC”)**

party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The AC should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

### *b. Review of the financial information*

- (iv) to monitor integrity of the Group’s financial statements of and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the AC should focus particularly on: -
  - 1. any changes in accounting policies and practices;
  - 2. major judgmental areas;
  - 3. significant adjustments resulting from audit;
  - 4. the going concern assumptions and any qualifications;
  - 5. compliance with accounting standards; and
  - 6. compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (v) Regarding (iv) above:-
  - 1. members of the AC should liaise with the Board and senior management and the AC must meet, at least twice a year, with the Company’s auditors; and
  - 2. the AC should consider any significant or unusual items that are, or may need to be, reflected in such the report and accounts, it should give due consideration to any matters that have been raised by the Group’s staff responsible for the accounting and financial reporting function, compliance officer or auditors;

### *c. Oversight of the financial reporting system and internal control procedures*

- (vi) to review the Group’s financial controls, internal control and risk management systems;
- (vii) to 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 Group’s accounting and financial reporting function;
- (viii) 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;
- (ix) 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 Group, and to review and monitor its effectiveness;
- (x) to review the Group’s financial and accounting policies and practices;
- (xi) 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

## **AMS Public Transport Holdings Limited (the “Company”) Term of Reference for Audit Committee (“AC”)**

management’s response;

- (xii) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (xiii) to report to the board on the matters set out in this terms of reference; and
- (xiv) to consider other topics, as defined by the Board.

### *d. Others*

- (xv) to review arrangements employees of the Group may use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The AC should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (xvi) to act as the key representative body for overseeing the Group’s relations with the external auditor; and
- (xvii) should establish a whistle-blowing policy and system for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the AC about possible improprieties in any matter related to the Group.

*First update on: 1 September 2009  
Second update on: 21 December 2011*