

**China Innovationpay Group Limited**  
**中國創新支付集團有限公司**  
*(incorporated in Bermuda with limited liability*  
*(Stock code: 08083)*

**Terms of Reference of the Audit Committee**

**Adopted by the Board on 28 March 2012 and updated on 30 May 2016**

**Definition**

“Company”	means China Innovationpay Group Limited 中國創新支付集團有限公司
“Group”	means the Company and its subsidiaries
“Board”	means the board of Directors of the Company
“Audit Committee”	means the Audit Committee of the Board of the Company
“Director(s)”	means director(s) of the Company
“Independent Non-Executive Directors”	means the independent non-executive Directors of the Company as defined in the Listing Rules
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Listing Rules”	means the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Senior Management”	means the staff regarded as senior management under the Listing Rules

**Purpose of the Audit Committee**

The purpose of the Audit Committee is to assist the Board to conduct accounting, auditing, financial reporting, risk management and internal control matters of the Group and to comply with relevant laws and regulations and entrusted obligations, including but not limited to assist the Board to review and monitor (a) the completeness of financial reports of the Company, (b) the compliance with the laws and regulations by the Company, (c) the qualifications and independence of independent auditors of the Company, and (d) the performance of independent auditors and internal audit department of the Company.

**Constitution**

1. The Audit Committee is established by a resolution passed in the Board meeting.
2. The members of the Audit Committee shall be appointed by the Board and shall consist of not less than three Directors. Membership shall be confined to non-executive Directors only, a majority of whom should be Independent Non-Executive Directors. Pursuant to the Listing Rules, at least one member of the Audit Committee should have appropriate accounting or related financial management expertise as required under Rule 5.08(1) of the Listing Rules and meet the standards as set out in Listing Rules.
3. A former partner of the Company’s existing external auditor should be prohibited from acting as a member of the Audit Committee for a period of one year commencing from the date of his/her ceasing to:
  - (i) be a partner of the firm; or

(ii) have any financial interest in the firm, whichever is the later.

4. If any member of the Audit Committee is incapable of performing his/her duty for any reason, the Board of the Directors shall promptly appoint appropriate member(s) to the Audit Committee to ensure the number of the members of the Audit Committee meets the quorum.
5. The Chairman of the Audit Committee shall be appointed by the Board and shall be an Independent Non-Executive Director. In the case of equality of votes, the Chairman of the Audit Committee shall have a second or casting vote.
6. The secretary of the Audit Committee shall be the company secretary of the Company. In the absence of the secretary of the Audit Committee, the Audit Committee members present at the meeting shall select another person as the secretary.

### **Declaration of Interest**

7. Each member in the Audit Committee shall declare to the Audit Committee any of his/her personal financial interest in connection with any matter to be resolved by the Audit Committee and any potential conflict of interest in connection with such matter. Any member with such interest or relates to such potential conflict of interest shall be abstained from voting in the Audit Committee's resolution and discussion in respect of the related matters. The interested member shall resign if requested by the Board.

### **Meeting Proceedings**

8. Notice of meeting:
  - (i) Unless otherwise agreed by all members of the Audit Committee, at least seven days' prior notice must be given to all members before meeting;
  - (ii) Any member may convene a meeting by notifying the secretary of the Audit Committee in writing, and then the secretary of the Audit Committee shall notify the other members in writing or by other ways, or alternatively any member of the Audit Committee may notify the other members directly in writing or orally. The secretary of the Audit Committee may also convene a meeting by notice in writing. The aforesaid "notice in writing" includes notice by facsimile transmission;
  - (iii) For any meeting convened by an oral notice, the secretary of the Audit Committee shall issue a written confirmation as soon as practicable and before the meeting; and
  - (iv) Any written and oral notice shall state the purpose, time, place, date and agenda of the meeting and shall be accompanied by the relevant documents which may be required to be considered by the members and the secretary of the Audit Committee. Documents should be provided together with meeting agenda which shall be sent together with meeting notice (or written confirmation of an oral notice).

9. The quorum of the meeting of the Audit Committee shall be two members, who may attend meetings in person or through telephone conference or other communication facilities by means of which all attendees of the meeting are capable of hearing each other.
10. The meeting of the Audit Committee shall be held not less than four times a year. The Chairman of the Audit Committee may convene interim meeting. The Audit Committee shall have regular meetings with:-
  - (i) the management of the Company;
  - (ii) the head of internal audit department of the Company or any other person in charge of the Company's internal audit function; and
  - (iii) the external auditors the Company;

separately to consider the budget, revised budget and drafts of quarterly report, interim report and annual report presented by the Board or any other matters which the Audit Committee or any aforesaid parties or the Company consider necessary for the Audit Committee's attention. The external auditors of the Company, if they consider necessary, may request the Audit Committee to convene a meeting.

11. The officer(s) in charge of the finance department of the Company and a representative of the external auditors of the Company shall attend the Audit Committee meetings. However, the Audit Committee shall meet with the external and internal auditors of the Company at least once a year without presence of the executive Directors for discussion of any matter of the Company which it considers necessary.

### **Authority and Duties**

12. The Audit Committee is authorized by the Board to:
  - (i) investigate any activities in respect of the Group within its terms and reference, and request any reports and information from employees of the Group and professional advisers (including auditors). Under the direction of the Board, all employees should co-operate with the Audit Committee, including answer questions raised by it;
  - (ii) seek independent legal advice or other professional advice from independent third party with relevant experience and professional expertise, if necessary. Fees of such engagement shall be paid by the Company;
  - (iii) ensure individuals with relevant experience and expertise attending the Audit Committee meetings, if it considers necessary;
  - (iv) report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the board.
  - (v) review the Group's internal control measures and system;

- (vi) review employees' performance of the Group's accounting and internal audit department;
- (vii) assist the board in fulfilling its responsibilities: by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group, and as to the adequacy of the external and internal audits;
- (viii) serve as a focal point for communication between other directors, the external auditor and the internal auditor as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the board determines from time to time;
- (ix) request the Board to take all necessary actions, including convening an extraordinary general meeting, replacing or removing the auditors of the Group;
- (x) if the Board disagrees with the Audit Committee with respect to the selection, appointment, resignation or removal of external auditors, the Audit Committee shall arrange its recommendation to be published in the Corporate Governance Report in the Annual Report of the Company and state the disagreed reasoning held by the Board; and
- (xi) be provided with sufficient resources to discharge its duties.

### 13. Responsibilities of the Audit Committee:

#### *Relationship with the external 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 be responsible for monitoring the work done by the external auditors, who must report directly to the Audit Committee;
- (iii) to review and decide with regard to the approval of the annual Engagement Letter of the external auditors of the Company, including the proposed service fees, all non-audit services permitted by the rules and codes in accordance with the audit standards and the Listing Rules, as well as the relationship between the Company and such external auditors. If necessary, such approval can be made after receiving opinions from the management of the Company;
- (iv) to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standards, including but not limited to:

- (a) monitoring the external auditors of the Company on their compliance with the requirements regarding rotation of audit partners as set out in the Listing Rules;
  - (b) monitoring the Company on its compliance with requirements regarding employees' conflict of interest as set out in the Listing Rules;
  - (c) communicating with the external auditors to confirm that the remunerations to the partners of the external auditors are in accordance with the applicable rules; and
  - (d) discussing the nature and scope of audit and reporting obligations with the auditor before the audit commences; and ensuring co-ordination if more than one audit firm is involved;
- (v) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditors" 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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (vi) to review the external auditors' annual audit plan and discuss the same with such external auditors (including time arrangement and scope of audit activities) and to oversee the progress and results of such plan; and
- (vii) to resolve all disputes between the external auditors and management of the Company arising from the financial reports.

*Review of financial information of the Company*

- (viii) together with the management, external auditors and the internal auditor (if applicable) of the Company, to monitor integrity of the Company's financial statements and annual report and accounts, half-year reports and quarterly reports, and to review significant financial reporting judgments contained in them (if necessary, to have discussions on the relevant matters in meetings without presence of management). In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:
- (a) the steadiness and consistency of accounting policies, the integrity and accuracy of financial reports, and any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from audit;

- (d) all alternative treatments of financial information that have been discussed by the external auditors and management; the impact of using such alternative disclosure and treatments; and treatment that the external auditors prefer;
  - (e) all other material written communications between the external auditors and management of, such as any management letters and schedule of unadjusted differences;
  - (f) the going concern assumptions and any qualifications;
  - (g) compliance with accounting standards;
  - (h) compliance with the Listing Rules and legal requirements in relation to financial reporting;
  - (i) the fairness and reasonableness of any connected transactions, and the impact of such transactions on the profitability of the Group, and whether the transactions have been carried out in accordance with the terms and conditions of relevant agreements;
  - (j) whether the presentation or information disclosure of the financial statements has enhanced the transparency of the Group and enables investors to form a fair view of the Group's financial conditions;
  - (k) cash flow position of the Group;
  - (l) discussing issues arising from the limited review of quarterly, interim results and audit of annual results or other matters the auditors may wish to discuss (without the presence of the management of the Group where necessary), and to provide advice and comments to the Board; and
  - (m) other relevant matters.
- (ix) regarding to (viii) above:
- (a) members of the Audit Committee should liaise with the Board and the Senior Management and the Audit Committee must meet, at least once a year, with the Company's external auditors; and
  - (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and account, it should give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officers or auditors.

*Oversight of the Company's financial reporting system, risk management and internal control systems*

- (x) to review the Company's financial controls, internal control system and other major financial matters, and unless expressly addressed by a separate risk management committee, or by the Board itself, to review the Company's risk management system;
- (xi) to review the annual report prepared by the management and certified by the external auditors, among which, the external auditors shall evaluate the effectiveness of the Company's internal control set out in the financial report and set forth the duties of the management to establish and maintain an effective internal control;
- (xii) to discuss the risk management and internal control systems with management to ensure that the management has performed its duty to have effective systems. 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;
- (xiii) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (xiv) to ensure the 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;
- (xv) to review the Group's financial and accounting policies and practices, and to monitor the Company's financial operation and core business status;
- (xvi) to review the external auditor's management letter, any material queries raised by the external auditors to the management about accounting records, financial accounts or systems of control and management's response;
- (xvii) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (xviii) to report to the Board on the matters set out in the Corporate Governance Code and Corporate Governance Report under Appendix 15 to the Listing Rules;
- (xix) to review following arrangements made by the Company: the employees of the Company may, in confidence, raise concerns about potential improper behaviors arising from financial reporting, risk management, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigations of such matters and appropriate follow-up actions;
- (xx) to timely ascertain the reasons of resignation of the executive Director, general manager, financial officer or head of internal audit/head of credit control upon their resignations;

- (xxi) to prepare draft reports or summary of work reports for the prescribed period, the former shall be submitted to the Board for review and the latter shall be included in the Group's quarterly, interim and annual reports;
- (xxii) to consider the proposal of the Board in relation to the appointment, replacement or removal of any member of the Audit Committee and the auditors;
- (xxiii) to review regularly the following matters with the Company's financial officer and the external auditors:
  - (a) all major deficiencies and serious defects in the internal control measures of financial reporting during the setting or implementation may adversely impact the capability of recording, handling, summarizing and reporting of financial information; and
  - (b) any fraudulent acts in respect of the management or other employees who plays an important role in the internal control over the Company's financial reporting, regardless of the seriousness of such frauds.
- (xxiv) to act as the key representative body to oversee the Company's relationship with its external auditors; and
- (xxv) to consider any other matters as authorized by the Board.

### **Other Matters**

14. The Audit Committee shall report to the Board. At the next meeting of the Board following a meeting of the Audit Committee, the chairman of the Audit Committee shall report its findings and recommendations to the Board.
15. The Audit Committee shall set out the procedures in respect of: (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company regarding questionable accounting or auditing matters.
16. The Audit Committee should seek advice (within the scope as it considers appropriate) from independent experts, including independent consultant, accountant, adviser or others persons (whether or not approved by the Board) to assist the Audit Committee to discharge its duties and responsibilities. Fees of such engagement shall be paid by the Company.
17. The Audit Committee should within its terms of reference, take necessary or appropriate actions on matters that the Audit Committee or the Board and consider other matters as the Audit Committee and the Board considers necessary or appropriate.
18. The Audit Committee should provide the Board relevant information which is essential to assist the Board to report to the shareholders of the Company in accordance with the Listing Rules or other applicable regulations of regulatory authorities in respect of the annual auditing matters.



19. The chairman of the Audit Committee shall attend the annual general meeting of the Company to respond to the questions raised by the shareholders of the Company on audit matters.
20. Minutes of the Audit Committee meetings should be prepared and kept by the secretary of the Audit Committee and such minutes should be made available for inspection by Directors at any reasonable time by reasonable notice. Draft and final versions of minutes of the Audit Committee meetings should be circulated to all members of the Audit Committee for their comment and records respectively, in both cases by the secretary of the Audit Committee within a reasonable time after the meeting.
21. The Audit Committee shall report all its resolutions or recommendations to the Board.
22. Terms of reference of the Audit Committee shall be made available to the public on the websites of the Stock Exchange and the Company.

#### **Assessment of the Audit Committee**

23. The Audit Committee shall assess its performance on yearly basis. Such assessment shall explain all matters the Audit Committee regards as related to its performance, including reviewing and assessing the adequacy of the terms of reference and such assessment shall carry out in the way that the Audit Committee considers appropriate.

#### **Application of the Articles of Association of the Company**

24. For anything not included in these terms of reference, those applicable provisions of the Articles of Association of the Company regulating the procedures of the Directors' meetings shall apply.

#### **Rights of the Board**

25. The Board may, subject to the Articles of Association of the Company and the Listing Rules (including the Corporate Governance Code and Corporate Governance Report under Appendix 15), amend, supplement and revoke the terms of reference and procedures of the Audit Committee provided that no such amendments and supplements and revocation shall invalidate the resolutions resolved or action taken by the Audit Committee prior to any relevant actions.

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