

# **QUALITY HEALTHCARE ASIA LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(the “Company”)**

## **REVISED TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

### **1 Membership**

- (a) The Audit Committee (hereinafter referred to as the “Committee”) shall be appointed by the Board of Directors (“Board”) from amongst the Non-Executive Directors of the Company and shall consist of not less than three members, a majority of whom should be Independent Non-Executive Directors (“INEDs”). At least one member must be an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Where there are only three INEDs as members of the Board, all of them shall be appointed as members of the Committee. The constitution of the Committee shall comply with the requirements of the Listing Rules from time to time.
- (b) The Board may at any time remove, suspend or replace any member of the Committee at its option by resolution where upon the Committee shall consist of the remaining or replaced members of the Committee.
- (c) The Chairman of the Committee shall be an INED and a member of the Committee elected by the Board.

### **2 Attendance at Meetings**

- (a) The quorum for a meeting of the Committee shall be two members, both of whom must be INEDs.
- (b) Subject to paragraph 4 below, the Chairman of the Board, the Finance Director and the Head of Internal Audit and Compliance (“IAC”) shall normally be invited to attend meetings of the Committee. A representative of the external auditors shall be invited to attend the Committee meetings where appropriate. Other staff who have specific responsibility for an area under review may also be invited to attend.
- (c) The Company Secretary shall be the Secretary of the Committee who should attend all meetings of the Committee.
- (d) Members of the Committee may participate in a meeting of the Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

### **3 Frequency of Meetings**

Meetings shall be held not less than three times a year. The external auditors or any members of the Committee may request a meeting if they consider that one is necessary and upon the receipt of such request, the Secretary of the Committee shall convene such a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs.

### **4 Private Meetings**

The Committee may hold separate private meeting(s) with the internal auditors and/or the external auditors with no Executive Directors or senior management present whenever they think fit and appropriate.

### **5 Committee's Resolutions**

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 and may consist of several documents in like form each signed by one or more of the members of Committee. Such resolution may be signed and circulated by fax. This provision is without prejudice to any requirement under the Listing Rules for a Board or Committee meeting to be held.

### **6 Authorities**

- (a) The Committee is authorised by the Board to operate in accordance with its terms of reference. It is authorised to seek any information it requires from any employee or Executive Director and such persons are directed to co-operate with any request made by the Committee.
- (b) The Committee is authorised by the Board, and at the reasonable expense of the Company, to obtain reasonable outside legal or other independent professional advice but only in accordance with the Company's policy for Directors to seek independent professional advice.
- (c) The Head of IAC shall report to the Committee in such form as is specified by the Committee.
- (d) The Committee shall report to the Board any suspected frauds or 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.
- (e) Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Board will arrange for the Corporate Governance Report in the Annual Report of the Company to include an explanation of the Committee's view and the reasons why the Board has taken a different view.
- (f) The Committee is to be provided with sufficient resources to discharge its duties.

## 7 General Responsibilities

- (a) The Committee is to serve as a focal point for communication between other Directors, the external auditors and the internal auditors 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.
- (b) The Committee is to 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 Company and its subsidiaries (the “Group”), and as to the adequacy of the external and internal audits.
- (c) The Committee shall fulfill other responsibilities as required by the Listing Rules from time to time.

## 8 Duties

The duties of the Committee shall be:

### Relationship with the Company’s external auditors

- (a) to be primarily responsible for making recommendation to the Board on 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 resignation or dismissal of the external auditors;
- (b) to consider the plan for each year’s audit submitted by the external auditors and discuss the same at a meeting if necessary;
- (c) to review and monitor the external auditors’ independence and objectivity. In this connection, the Committee shall:
  - (i) seek from the external auditors, on an annual basis, information about policies and process for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;
  - (ii) conduct annual review of all non-audit services performed by the external auditors and the related fee levels, and to ensure that such services do not impair the independence of the external auditors; and
  - (iii) review the policies relating to the hiring of any staff or partners of the external auditors and consider whether as a result of such any subsequent hiring, there has been any impairment of the auditors’ judgment or independence in respect of the audit.
- (d) to discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;

- (e) to develop policy on the engagement of the external auditors to supply non-audit services. 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. The Committee should 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;

*Review of financial information of the Company*

- (f) to monitor integrity of the financial statements of the Company and the Company's annual report and accounts and half-year report, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts and half-year report before submission to the Board, the Committee should focus particularly on:
  - (i) any changes to 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 requirements under the Listing Rules and other regulatory and legal requirements.
- (g) in regard to (f) above:
  - (i) members of the Committee must liaise with the Board and senior management and the Committee must meet, at least once a year, with the Company's external auditors; and
  - (ii) the Committee should 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 person responsible for the accounting and financial reporting function, compliance officer or auditors;

*Oversight of the Company's financial reporting system and internal control procedures*

- (h) to review the Company's financial controls, internal control and risk management systems;
- (i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;
- (j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

- (k) 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 Company, and to review and monitor the effectiveness of the internal audit function;
- (l) to review the group's financial and accounting policies and practices;
- (m) to discuss any problems and reservations arising from the interim and final audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary) and to assist in the resolution of any disagreements or difference between the external auditors and management;
- (n) to 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;
- (o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (p) to report to the Board on the above matters; and
- (q) to consider other topics, as defined by the Board.

## **9 Reporting Procedures**

- (a) The Committee shall report to the Board. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report the findings and recommendations of the Committee to the Board.
- (b) Full minutes of Committee meetings shall be kept by the Secretary of the Committee. Draft and final versions of minutes of Committee meetings shall be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.
- (c) Copies of the minutes of meetings of the Committee shall be provided to the Board at its meetings.

## **10 Availability and update of the terms of reference**

These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. the Listing Rules) in Hong Kong. These terms of reference shall be made available to the public by including the information on the Company's website.

*(updated as of 9 February 2009)*