

(Effective on 26th May, 2015)



HARMONY ASSET LIMITED

亨亞有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 428)

AUDIT COMMITTEE
TERMS OF REFERENCE

** for identification purpose only*

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Constitution

1. The board of directors (the “Board”) of Harmony Asset Limited (the “Company”, together with its subsidiaries, the “Group”) resolved to establish a committee of the Board to be known as the Audit Committee (the “Committee”).

Overall Purpose and Objectives

2. The Committee will assist the directors of the Company in fulfilling their responsibilities under applicable laws, rules, regulations and stock exchange requirements (“Applicable Laws”). To the extent considered appropriate by the Committee or as required by Applicable Laws, the Committee shall review the financial reporting process of the Company, the system of internal controls and management of the financial risks of the Company and the audit process of the financial information of the Company. In fulfilling its responsibilities, the Committee shall maintain an effective working relationship with the directors, the management and the external auditor of the Company as well as monitor the independence of the external auditor.

Membership

3. The Committee members shall be appointed by the Board from amongst the non-executive directors of the Company. The Committee shall consist of not less than three members. The majority of Committee members should be independent non-executive directors of the Company. A quorum for a meeting of the Committee shall be two members.
4. At least one member of the Committee shall be a director who is independent and financially literate to the extent required by (and subject to the exemptions and other provisions set out in) Applicable Laws. In these terms of reference, the terms “independent” and “financially literate” have the meaning ascribed to such terms by Applicable Laws, and include the meanings given to similar terms by Applicable Laws.
5. The chairman of the Committee shall be appointed by the Board and shall be an independent non-executive director who has such accounting or related financial management expertise as the directors may determine in their business judgment.

Attendance at Meetings of Committee

6. Representative(s) of investment manager, and a representative of the external auditor shall, at the request of the Committee, attend meetings of the Committee. Other Board members shall also, at the request of the Committee, have the right of attendance. However, at least once a year the Committee shall meet with the external auditor without executive Board members present.

7. The company secretary or such other person designated by the Committee (the “Secretary”) shall be the secretary of the Committee. In the absence of the Secretary in any meeting of the Committee, a member of the Committee or a representative of the Secretary shall act as the secretary of the meeting of the Committee.

Frequency of Meetings

8. Meetings shall be held not less than twice a year. The external auditor or any members of the Committee may request a meeting with or without the presence of executive directors if they consider that one is necessary.

Authority

9. The Committee is authorised by the Board to investigate any activity within the terms of these terms of reference. It is authorised to seek any information it requires from any officer or employee and all officers and employees are directed to co-operate with any request made by the Committee.
10. The Committee is authorised by the Board, subject to prior discussion concerning the cost, to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise as it considers necessary.

Duties

11. The Committee shall:
 - (a) be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
 - (b) review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
 - (c) be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report on the annual financial statements of the Company or performing other audit, review or attest services for the Company, including the resolution of disagreements between management of the Company and the external auditor of the Company regarding any financial reporting matter and the review of the performance of the external auditor of the Company;
 - (d) 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 shall report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- (e) monitor the integrity of the Company's financial statements and annual report and accounts, half-year report, and if prepared for publication, quarterly reports, and review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee shall focus on, among other things:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with Applicable Laws in relation to financial reporting;
- (f) regarding paragraph (e) above:
 - (i) members of the Committee shall liaise with the Board and the Company's senior management and the Committee shall meet, at least twice a year, with the Company's external auditor; and
 - (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and shall 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 external auditor;
- (g) review and be satisfied that adequate procedures are in place for the review of the public disclosure of the Company of financial information extracted or derived from the financial statements of the Company, and periodically assess the adequacy of those procedures;
- (h) review the Company's financial controls, internal control and risk management systems;
- (i) discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion shall include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

- (j) 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;
- (k) discuss problems and reservations arising from the interim review and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary);
- (l) review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response;
- (m) review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (n) where an internal audit function exists, review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;
- (o) review and approve the hiring policies of the Company regarding partners, employees and former partners and employees of the present and any former external auditor of the Company;
- (p) ensure that the Board provide a timely response to the issues raised in the external auditor's management letter;
- (q) review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (r) act as the key representative body for overseeing the Company's relations with the external auditor;
- (s) report to the Board on the matters set out in the provisions of these terms of reference;
- (t) review the Group's financial and accounting policies and practices;
- (u) consider other topics, as requested by the Board; and
- (v) review these terms of reference from time to time and revise as considered appropriate.

Reporting procedures

12. The Secretary or his/her representative shall circulate the minutes of meetings of the Committee to all members of the Board.

Powers of the Board

13. The Board may, subject to compliance with the articles of association of the Company and Applicable Laws, amend, supplement and revoke the terms of these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of the terms of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid had the terms of these terms of reference or resolution not been amended or revoked.