



DIRECTEL HOLDINGS LIMITED

直通電訊控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8337)

(the "Company")

TERMS OF REFERENCE OF THE AUDIT COMMITTEE (the "Committee")

1. Membership

- 1.1 The Committee shall be appointed by the board (the "Board") of directors (the "Directors") of the Company from amongst the non-executive Directors and shall consist of not less than three members, at least one of whom shall be an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules").
- 1.2 The majority of the members of the Committee shall be independent non-executive Directors.
- 1.3 The Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive Director.
- 1.4 A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Company's audit committee for a period of one year from the date of his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is later.
- 1.5 The Company Secretary of the Company shall be the secretary of the Committee.
- 1.6 The Committee may from time to time appoint any other person with appropriate qualification and experience to act as the secretary of the Committee.

2. Frequency and proceedings of meetings

- 2.1 Meetings shall be held not less than four times a year. Additional meetings should be held as and when the work of the Committee demands.
- 2.2 The Chairman of the Committee may convene additional meetings at his discretion.
- 2.3 The external auditors may request a meeting with the Committee if they consider it necessary.
- 2.4 The quorum of a meeting shall be two members of the Committee.
- 2.5 Proceedings of meetings of the Committee shall be governed by the relevant provisions of the articles of association of the Company (as amended from time to time) or such proceedings of meetings as adopted by the Company from time to time.

3. **Attendance at meetings**

3.1 At the invitation by the Committee, the following persons may attend the meeting:

- (a) the Chief Financial Officer of the Company (or any officer(s) assuming the relevant functions but having a different designation);
- (b) a representative of the external auditors of the Company;
- (c) where an internal audit function exists, the head of internal audit or a representative from internal audit; and
- (d) other members of the Board or other persons.

3.2 Only the Committee members are entitled to vote at the meetings.

4. **Annual general meetings**

4.1 The Chairman of the Committee shall attend the annual general meetings of the Company and be prepared to respond to any shareholder questions on the Committee's activities and responsibilities. If the Chairman of the Committee is unable to attend, a member of the Committee (who must be an independent non-executive Director) shall attend the annual general meeting of the Company. Such person shall be prepared to respond to any shareholder questions on the Committee's activities and responsibilities.

5. **Duties, powers and functions**

5.1 The Committee shall:

Relationship with the Company's Auditors

- (a) 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;
- (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 should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) 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.
- (d) report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (e) act as the key representative body for overseeing the Company's relations with the external auditor;

Review of the Company's financial information

- (f) monitor 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 judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
 - (i) any changes in 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 the Listing Rules and legal requirements in relation to financial reporting;
- (g) with regard to paragraph (f) above,
 - (i) the members of the Committee should liaise with the Board and senior management of the Company and the Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts; and it should 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 auditors;

Overseeing of the Company's financial reporting system and internal control 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 should 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) 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 Company, and to review and monitor its effectiveness;
- (l) review the financial and accounting policies and practices of the Company and its subsidiaries (the "Group");
- (m) 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 management's response;
- (n) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- (o) review arrangements employees of the Group 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;

Corporate governance functions delegated by the Board

- (p) develop and review the Company's policies and practice on corporate governance and make recommendations to the Board;
- (q) review and monitor the training and continuous professional development of Directors and senior management of the Company;
- (r) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (s) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- (t) review the Company's compliance with the Code and disclosure in the Corporate Governance Report of the Company;

Others

- (u) report to the Board on the matters set out herein; and
- (v) consider other topics, as defined or assigned by the Board from time to time.

6. Disagreement as to external auditors

- 6.1 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee will arrange for the Corporate Governance Report to include a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different view.

7. Reporting Procedures

- 7.1 Full minutes of the meetings of the Committee shall be kept by the secretary of the Committee, who shall send draft and final versions of minutes of meetings and all written resolutions of the Committee to all Committee members for their comment and records within a reasonable time after the meeting.
- 7.2 The Committee should report to the Board on a regular basis on its decisions or recommendations.
- 7.3 At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report to the Board on the findings and recommendations of the Committee.

8. Authority

- 8.1 The Committee is authorised by the Board to inspect all accounts, books and records of the Company.
- 8.2 The Committee shall have the right to request the management of the Company to furnish information on any matter relating to the financial position of the Company, its subsidiaries and associates to perform its duties.

8.3 The Committee should have access to independent professional advice, at the expense of the Company, to fulfill its responsibilities.

Note: Arrangement to seek independent professional advice may be made through the company secretary.

8.4 The Committee shall be provided with sufficient resources to enable it to perform its duties.

“senior management” refers to the same category of persons as referred to in the Company’s annual report and required to be disclosed under Rule 18.39 of the Listing Rules.