

## ANNEX "C"

### AUDIT COMMITTEE CHARTER

#### I. Purpose

The purpose of the **Audit Committee** (the "Committee") of the **Board of Directors** (the "Board") of **Crown Asia Compounders Corporation** (the "Company") is to represent and assist the Board in its general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements.

The Audit Committee members are not professional accountants or auditors and their functions are not intended to duplicate or to certify the activities of management and the independent auditor under applicable rules. The Audit Committee serves a board level oversight role where it oversees the relationship with the independent auditor, as set forth in this charter, and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors on the basis of the information it receives, discussions with the auditor, and the experience of the Committee's members in business, financial and accounting matters.

#### II. Membership

The Committee shall be appointed by the Board and shall comprise of at least three directors who meet the experience and independence standards of the Securities and Exchange Commission ("SEC") and the Philippine Stock Exchange ("PSE") and other applicable laws and regulations. One of the directors shall be an independent director who shall be the Chairman thereof. All Committee members will be financially literate, have adequate understanding of the Company's financial management systems and environment and at least one member of the Committee will have accounting or related financial management expertise or relevant business experience as determined by the Board. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership. In case of any vacancy in the Committee, the Board shall appoint a replacement who will fill the vacancy at any meeting of the Board subject to the provision of this Charter. Committee members may receive no compensation from the Company other than director's fees.

### **III. Meeting**

The Committee will meet as often as may be deemed necessary or appropriate in its judgment, at least quarterly each year, and at such times and places as the Committee shall determine. The majority of the members of the Committee shall constitute a quorum. The Committee will meet separately, at least quarterly, with the independent auditors and management to discuss any matters that they wish to bring to the Committee's attention.

The Committee shall report to the Board with respect to its meetings, including any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, and/or the performance and independence of the Company's independent auditors.

### **IV. Committee Authority and Responsibilities**

The primary responsibility of the Committee is to oversee the Company's financial controls and reporting processes on behalf of the Board and report the results of its activities to the Board. The Committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following shall be the principal recurring processes of the Committee in carrying out its oversight responsibilities. The Committee may perform such other duties and responsibilities as are consistent with its purpose and as the Board or the Committee deems appropriate.

#### **Appointment, Compensation, Retention, Rotation and Oversight of Independent Auditors**

##### **1. Independent auditors.**

The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit review or attest services for the Company. The Company shall provide the appropriate funding, as determined by the Committee, for payment of compensation to the public accounting firm so engaged.

The independent auditor (external auditor) shall be selected and appointed by the stockholders upon the recommendation of the Audit Committee from the pool of duly accredited independent auditor by the regulatory authorities, e.g. Securities and Exchange Commission (SEC). The external auditor or the lead partner thereof primarily responsible for the audit of the Company or the review thereof shall be

annual report on internal controls by the Chief Executive Officer and Chief Financial Officer, as received by the independent auditors.

Based on these reviews, the Committee will make a recommendation to the Board as to whether the audited financial statements should be included in the Company's Annual Report on SEC Form 17-A.

#### **Appointment and Oversight of Internal Auditors**

**6. Internal controls, disclosure controls and procedures.** The Committee will review and discuss with management and the independent auditors the Company's internal controls. The Committee will review and discuss the Company's disclosure controls and procedures, and the periodic assessments of such controls and procedures by the President and Treasurer.

To help the senior management in setting-up and monitor the effectiveness of the company's internal control system, the Committee shall organize an internal audit department (in-house or outsourced) and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal.

The Committee shall establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. The Internal Auditor shall functionally report to the Audit Committee. The Audit Committee shall ensure that in the performance of the work of the internal auditor, he shall be free from interference by outside parties.

The independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which the Board, senior management, stockholders and other stakeholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

The minimum internal control mechanisms for management's operational responsibility shall center on the CEO and/or President, being accountable for the Corporation's organizational and procedural controls. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of the business; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology and the extent of regulatory compliance.

#### **Other Duties and Responsibilities**

**7. Complaint procedures.** The Committee will establish procedures for receipt, retention and treatment of complaints regarding accounting, internal accounting

rotated or changed at least once every five (5) years or as determined by the regulatory authorities.

The Committee shall also be responsible for: (a) ensuring its receipt from the independent auditors of a formal written statement delineating all relationships between the auditor and the Company, consistent with Philippine Standards on Auditing and Philippine Financial Reporting Standards, (b) actively engaging in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor, and (c) taking, or recommending that the full Board take, appropriate action to oversee the independence of the outside auditor. In connection with these responsibilities, the Committee shall discuss the auditor's independence from management and the Company, including whether the auditors' performance of permissible non-audit services is compatible with their independence. This process will include, at least annually, the Committee's review of the independent auditors' internal control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent directors and the Company. The Company shall review the use of auditors other than the independent auditor in cases such as management's request for second opinions.

#### **Approval of Audit Engagement and the Related Audit Scope and Audit Plans**

The Committee shall pre-approve all audit plans, scope and frequency before the conduct of the external and internal audit.

**2. Audit services.** The Committee shall discuss with the independent external and internal auditors the overall scope and plans for their respective audits including their respective responsibilities and the adequacy of staffing and compensation. The Committee shall approve in advance all audit engagement fees and the terms of all audit services to be provided by the independent auditors.

**3. Permissible non-audit services.** The Committee shall establish policies and procedures for the engagement of the independent external auditors to provide permissible non-audit services, which shall include pre-approval of permissible non-audit services to be provided by the independent external auditors. The Committee may, from time to time, delegate its authority to pre-approve non-audit services to one or more Committee members, provided that such delegate(s) present any such approvals to the full Committee at its next scheduled meeting.



## Review of Financial Reports

The Committee shall check all financial reports against its compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements. It shall review the reports submitted by the internal and external auditors. It shall review interim and annual financial statements before the submission to the Board with particular focus on the following matters: any change/s in accounting policies and practices; major judgmental areas; significant adjustments resulting from the audit; going concern assumptions; compliance with accounting standards and compliance with tax, legal and regulatory requirements.

**4. Review of interim financial statements; earnings releases.** The Committee shall review the interim financial statements, and the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations with management prior to the filing of the Company's Quarterly Report on SEC Form 17-Q. The Committee will discuss the Company's policies and procedures with respect to earnings releases, financial information and earnings guidance provided to analysts and rating agencies. The Committee will discuss the results of the quarterly review and any other matters required to be communicated to the Committee. The Chairman of the Committee may represent the entire Committee for the purposes of this review.

**5. Review of annual audited financial statements.** The Committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on SEC Form 17-A (or the annual report to shareholders), including (a) their judgment about quality, not just acceptability, of the Company's accounting principles, including significant financial reporting issues and judgments made in connection with the preparation of the financial statements; (b) the clarity of the disclosures in the financial statements; and (c) the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, including critical accounting policies.

The Committee will also review with management and the independent auditors (a) major issues regarding accounting principles and financial statement presentations, including significant changes in the selection or application of accounting principles; (b) major issues regarding the adequacy of internal controls and steps taken in light of material deficiencies; and (c) the effects of alternative accounting methods and regulatory and accounting initiatives on the financial statements.

The Committee will discuss the results of the annual audit and any difficulties the independent auditors encountered in the course of their audit work, including any restrictions on the scope of the auditors' activities or on access to requested information, and any significant disagreements with management. The Committee will also discuss any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards, and the

annual report on internal controls by the Chief Executive Officer and Chief Financial Officer, as received by the independent auditors.

Based on these reviews, the Committee will make a recommendation to the Board as to whether the audited financial statements should be included in the Company's Annual Report on SEC Form 17-A.

### **Appointment and Oversight of Internal Auditors**

**6. Internal controls, disclosure controls and procedures.** The Committee will review and discuss with management and the independent auditors the Company's internal controls. The Committee will review and discuss the Company's disclosure controls and procedures, and the periodic assessments of such controls and procedures by the President and Treasurer.

To help the senior management in setting-up and monitor the effectiveness of the company's internal control system, the Committee shall organize an internal audit department (in-house or outsourced) and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal.

The Committee shall establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. The Internal Auditor shall functionally report to the Audit Committee. The Audit Committee shall ensure that in the performance of the work of the internal auditor, he shall be free from interference by outside parties.

The independent internal audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which the Board, senior management, stockholders and other stakeholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and complied with.

The minimum internal control mechanisms for management's operational responsibility shall center on the CEO and/or President, being accountable for the Corporation's organizational and procedural controls. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of the business; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology and the extent of regulatory compliance.

### **Other Duties and Responsibilities**

**7. Complaint procedures.** The Committee will establish procedures for receipt, retention and treatment of complaints regarding accounting, internal accounting

controls, and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.

The Committee shall respond to any request from management for evaluation of compliance with the Code of Conduct, Manual on Corporate Governance and Standard Operating Policies and Procedures. The task of insuring that the Employee Code of Conduct has been understood and religiously complied with is collectively entrusted to both the Human Resource Division and the Department or Division where the employee is affiliated. The Compliance Officer shall be responsible for determining violations on the Manual on Corporate Governance through notice and hearing and shall recommend to the Chairman of the Board the penalty for such violation, for further review and approval of the Board.

**8. Risk Assessment and Promotion of Risk Awareness.** The Committee will review and discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.

The Audit Committee with the Risk Committee will provide oversight over management's activities in managing credit, market, liquidity, operational, legal and other risks of the Corporation. This function shall include regular receipt from management of information on risk exposures and risk management activities.

All directors, officers and employees shall be made aware of risks involved if actions taken are not in conformity with the existing government laws, rules and regulations; Company's Employee Code of Conduct, Company's Manual on Corporate Governance and Company's Standard Operational Policies and Procedures.

Adequate number of printed copies of the Company's Employee Code of Conduct, Manual on Corporate Governance and Standard Operational Policies and Procedures must be reproduced and distributed for reading and reference or must be readily available for easy access by all directors, officers and employees to enjoin continuing compliance.

**9. Related-Party Transactions.** The Committee will review and have prior-approval authority for related-party transactions (as defined in the applicable Philippine Stock Exchange listing standards).

**10. Hiring of auditor personnel.** The Committee shall set clear hiring policies with regard to employees and former employees of the independent auditors.

**11. Charter.** The Committee shall periodically (but no less than annually) review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

**12. Annual performance evaluation.** The Committee shall annually review its own performance.

**13. Investigative authority.** In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company.

The Committee shall perform direct interface functions with the internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

**14. Training and Education.** As part of their continuing education, each member shall attend seminar on corporate governance conducted by a duly recognized private or government institute and accredited by the Securities and Exchange Commission. Each member is also encouraged to attend seminars and trainings relevant to their performance as members of the Audit Committee, e.g. financial reporting and audit, internal control, risk management and others.

**V. Outside Advisors.** The Committee shall have the authority to retain such outside counsel, accountants, experts and other advisors as it deems appropriate to assist the Committee in the performance of its functions. The Committee shall have sole authority to approve related fees and retention items. The Company will provide appropriate funding, as determined by the Committee, for Compensation to any such outside advisors engaged by the Committee.

**VI. Miscellaneous.** Nothing contained in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for the directors of the Company or members of the Committee. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.