

## **Upson International Corp.**

### **Audit Committee Charter**

#### **I. Introductory Statement**

This Audit Committee (or “AudCom”) Charter enumerates the composition and members’ qualifications, duties and responsibilities, and other rules and procedures of the Audit Committee of Upson International Corp. (“Upson” or UIC), which may be necessary for the AudCom to effectively perform its function to assist the Board of Directors (the “Board”) of Upson.

#### **II. Composition and Members’ Qualifications**

- a. The Audit Committee shall be composed of at least three (3) appropriately qualified non-executive directors, at least two (2) of whom shall be independent, including its Chairperson, who should not be the Chairperson of the Board or any other committees.
- b. The Board shall appoint the members, including the Chairperson, of the AudCom.
- c. All members of the Audit Committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance.
- d. In case of vacancy, the Board shall appoint a qualified replacement to avert possible impairment to the AudCom’s functions.

#### **III. Duties and Responsibilities**

- a. The Audit Committee shall be responsible for overseeing the senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The AudCom shall have the following duties and responsibilities, among others:

- i. Recommend the approval the Internal Audit (IA) Charter, which formally defines the role of IA and the audit plan as well as oversee the implementation of the IA Charter;
- ii. Through the IA Department, monitor and evaluate the adequacy and effectiveness of the UIC’s internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the Upson’s resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the UIC’s financial data, and (d) ensure compliance with applicable laws and regulations;

- iii. Oversee the IA Department, and recommend the appointment and/or grounds for approval of an IA head or Chief Audit Executive (CAE). The Audit Committee shall also approve the terms and conditions for outsourcing IA services;
- iv. Establish and identify the reporting line of the Internal Auditor to enable him/her to properly fulfill his/her duties and responsibilities. For this purpose, he/she shall directly report to the AudCom;
- v. Review and monitor Management's responsiveness to the Internal Auditor's findings and recommendations;
- vi. Prior to the commencement of the audit, discuss with the External Auditor the nature, scope and expenses of the audit, and ensure the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- vii. Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to Upson's overall consultancy expenses. The Audit Committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence<sup>1</sup>. The non-audit work, if allowed, should be disclosed in the UIC's Annual Report and Annual Corporate Governance Report;
- viii. Review and approve the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices
  - Areas where a significant amount of judgment has been exercised
  - Significant adjustments resulting from the audit
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements
- ix. Review the disposition of the recommendations in the External Auditor's management letter;
- x. Perform oversight functions over the Upson's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- xi. Coordinate, monitor and facilitate compliance with laws, rules and regulations;

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<sup>1</sup> As defined under the Code of Ethics for Professional Accountants

- xii. Recommend to the Board the appointment, re-appointment, removal and fees of the External Auditor, duly accredited by the Securities and Exchange Commission (SEC), who undertakes an independent audit of UIC, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders; and
  - xiii. In the absence of a Related Party Transactions Committee, the AudCom shall perform the functions of said committee as prescribed by the SEC.
- b. Guided by best practices and standards, the Audit Committee shall likewise be responsible on (a) assessing the integrity and independence of the external auditor, and (b) establishing effective communication with the external auditor and requiring them to report all relevant matters, which will help the AudCom to efficiently carry out its oversight responsibilities.
  - c. The Audit Committee, in the performance of its duties, should oversee the overall relationship with the external auditor. It should evaluate and determine the nature of non-audit services, if any, of the external auditor. Further, the AudCom should periodically review the proportion of non-audit fees paid to the external auditor in relation to the Upson's overall consultancy expenses. Allowing the same auditor to perform non-audit services for UIC may create a potential conflict of interest. The Audit Committee shall be guided by best practices and regulatory requirements or issuances to (a) mitigate the risk of possible conflict between the auditor and Upson, and (b) promote auditor independence in the long run.
  - d. Regularly appraise the Board of its committee activities. The appraisal shall include an annual Audit Committee report and/or matters to be ratified, endorsed, or approved by the Board.
  - e. Annual review of this Charter. If deemed necessary, the updating of this Charter shall be endorsed to the Board for approval.
  - f. The compliance with regulatory requirements concerning audit matters, subject to the Board's review and approval.
  - g. Other functions, as delegated by the Board, shall also be performed by the Audit Committee.

#### **IV. Meetings**

- a. The Audit Committee shall meet at least every quarter, which may also be attended by the President and/or Chief Executive Officer, IA head or CAE, other management team members, and external experts, as it may deem necessary.
- b. The majority of the AudCom members shall be required to constitute a quorum, carry an act, or approve a resolution.
- c. Minutes of AudCom's meetings shall be recorded and made available for inspection purposes.

- d. Members of the Audit Committee and other invited attendees who cannot physically attend a meeting can participate through remote communication such as videoconferencing, teleconferencing, or other alternative modes of communication that allow them reasonable opportunities to participate, and shall be considered present during the meeting.
- e. An AudCom member who has a potential interest in any related party transaction must recuse from participating in the discussion of the related party transaction without prejudice to compliance with the requirements of Section 31 of the Revised Corporation Code.

**V. Other Rules and Procedures**

- a. An annual evaluation shall be conducted to assess the Audit Committee's performance, and to determine, implement, and monitor plans to improve its performance.
- b. The AudCom shall be assisted by the Management team, through the IA head or CAE, in the execution of its functions.
- c. In the fulfillment of its functions, the Audit Committee shall be guided by Upson's mission and vision.
- d. This Charter likewise directs the AudCom to adhere with best local and international standards and practices, subject to the Audit Committee and Board's discretion.