

# HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED

*(Incorporated in Cayman Islands with limited liability)*

**(Stock code: 969)**

Term of Reference of the Audit Committee

(Adopted on 31 December 2015)

## **1 Constitution**

- 1.1 The Audit Committee is established as a committee of the board of directors of the Company (the “**Board**”).

## **2 Membership**

- 2.1 The Audit Committee shall be appointed by the Board from amongst the Independent Non-Executive Directors of the Company and shall consist of not less than three members.
- 2.2 At least one of the Audit Committee members shall be an Independent Non-Executive Director 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 (the “**Listing Rules**”).
- 2.3 The Chairman of the Audit Committee shall be appointed by the Board and should be an Independent Non-Executive Director.
- 2.4 A former partner of the Company’s existing external auditor shall be prohibited from acting as a member of the Audit Committee for a period of 1 year commencing on the date of his ceasing (a) to be a partner of the auditing firm; or (b) to have any financial interest in the auditing firm, whichever is the later.

## **3 Attendance at meetings**

- 3.1 In addition to the members of the Audit Committee, the Financial Controller, the head of internal audit (if any) and the representative(s) of the external auditors shall normally attend the meetings. The Audit Committee shall meet with the external auditors, the head of internal audit (if any) and the Financial Controller at least once a year without Executive Directors being present.

3.2 The Audit Committee may, from time to time, invite any Board member or senior management or any other person to attend any of its meetings so as to ensure that the Audit Committee can better perform its duties and obligations.

3.3 The Company Secretary or his or her delegate or such other person appointed by the Chairman of the Audit Committee shall be the Secretary of the Audit Committee.

#### **4 Quorum**

4.1 The quorum necessary for the transaction of the business of the Audit Committee shall be two members of the Audit Committee. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all of any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.

#### **5 Frequency of meetings**

5.1 Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that is necessary.

#### **6 Notice of meetings**

6.1 Meetings shall be summoned by the Secretary of the Audit Committee at the request of the Chairman of the Audit Committee. An agenda and accompanying Audit Committee papers shall be circulated to all members in a timely manner and at least 3 days before the intended date of an Audit Committee meeting insofar as it is practicable. Such paper and related materials shall be in a form and quality as will enable the Audit Committee to make an informed decision on the matters placed before it.

#### **7 Authority**

The Audit Committee is authorized by the Board to:

7.1 carry out such related matters in accordance with its terms of reference. It is authorized to obtain any information it requires from any employees of the Company and all the employees of the Company are required to co-operate with

any request made by the Audit Committee;

- 7.2 communicate with the external auditors, where an internal audit function exists, the head of internal audit (if any), management and employees of the Company without any restrictions; and
- 7.3 seek advice from external professionals at the Company's expense, and if necessary, may invite those external professional(s) to attend the meeting of the Audit Committee.

## **8 Authority**

The duties of the Audit Committee shall be:

- 8.1 to contribute towards a climate of discipline, ethical behaviour, awareness of the risk management and internal controls within the Group; and
- 8.2 to ensure all members of the Audit Committee have full understanding in all aspects including the structure, controls and types of transactions of the Group, in order to have assessment of the significant risks faced by the Group.

### **Part A: Relationship and communication with the Company's external auditors**

1. primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors;
2. to approve the remuneration and terms of engagement of the external auditors;
3. responsible for the matters relating to the resignation or dismissal of the external auditors, and to review and approve the announcement to be published in relation to the change of external auditors;
4. to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
5. to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;

6. to review with the external auditors the recent or anticipated developments in accounting principles or reporting practices that may affect the scope of the audit before audit commences; to discuss identified audit risk areas and anticipated audit problems; and to suggest to the external auditors the performance of any supplementary audit or other agreed upon procedures deemed by the Audit Committee to be appropriate;
7. to meet with the external auditor every year (and on the basis whenever the external auditors or the Audit Committee consider it necessary), and in the absence of management, to discuss matters relating to the audit fees, any issues arising from the audit and any other matters the external auditors or the Audit Committee may wish to raise in respect of the accounting, financial reporting and internal control issues;
8. to review any material queries or issues raised by the external auditors to the Company's management about the accounting records, financial accounts or systems of control, and the management's response to such queries or issues. In general, the purpose is to resolve the different points of view between the management and the external auditors;
9. to review the management letter from external auditors and to ensure the Board provides a timely response to the issues raised in the letter;
10. to develop and implement policies on engaging an external auditor to provide non-audit services to the Company, and to ensure that the external auditor do not perform any services that impair or appear to impair the external auditors' judgment or independence in respect of the Company; and
11. to conclude, the Audit Committee is to act as the key representative body of the Company and is responsible to oversee the relationship between the Company and the external auditors, including the relationships involving the provision of non-audit services.

#### **Part B: Review of the Company's financial information**

1. to review and monitor the completeness, accuracy and fairness of the Company's annual reports, financial statements, interim reports and quarterly reports (if applicable) and to review significant financial reporting judgments contained

therein. In reviewing these reports before submission to the Board, the Audit Committee shall focus particularly on the following matters:

- i. any changes in accounting policies and practices;
- ii. major judgmental areas;
- iii. the extent to which the financial statements are affected by any unusual transactions, and how they are disclosed;
- iv. significant adjustments resulting from the audit;
- v. the going concern assumptions and any auditor's report qualifications;
- vi. the clarity of disclosures in the financial reports and statements;
- vii. compliance with accounting standards; and
- viii. compliance with the Listing Rules and legal requirements in relation to financial reporting;

Regarding 1) above:

2. to liaise with and challenge, as appropriate, the Board and senior management;
3. to meet with the external auditor at least twice a year; and
4. to consider any significant or unusual items that are, or may need to be, reflected in the Company's financial report and statements and should give due consideration to any matters that have been raised by the Financial Controller, representative(s) of Financial Department, or external auditors.

**Part C: Oversight of the Company's financial reporting system, risk management and internal control systems**

1. to review the systems of financial control, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the systems of risk management and internal control, and report(s) by management of the

Company and the internal audit department (if any) on the systems' adequacy and effectiveness;

2. to discuss the scope and quality of risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include an annual review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function;
3. to consider major investigation findings on risk management and internal control matters as delegated by the Board or instigated on its own initiative and management's response to these findings;
4. to review the Group's financial and accounting policies and practices;
5. to review all representation letters signed by the Company's management for the external auditors or other parties, to ensure that the information provided is complete and appropriate;
6. where internal audit function exist, to:
  - i. review the internal audit department's mission and terms of reference;
  - ii. ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
  - iii. discuss the scope of the internal audit function with the head of internal audit department, including the internal audit plans, work programmes and quality control;
  - iv. review the effectiveness of the internal audit function on a regular basis;
  - v. consider and monitor the management's response to internal audit recommendations; and
  - vi. ensure that co-ordination between the internal audit department and external auditors is adequate;

to approve and monitor of the whistle-blowing policy, and ensuring the fair and independent investigation and appropriate follow-up of such matters:

- i. the receipt, retention and treatment of complaints received by the Group regarding accounting, financial reporting, internal control, auditing or other matters; and
- ii. the confidential, anonymous submission by employees of the Group of concerns regarding questionable accounting, financial reporting, internal control, auditing or other matters.

#### **Part D: Review of the terms of transaction under the Listing Rules**

1. to review the continuing connected transaction entered into by the Company annually for the purposes of disclosures in the annual report and accounts in accordance with Rule 14A.55 of the Listing Rules.
2. To give the views as to the fairness and reasonableness in relation to the terms of any transactions proposed to be entered or entered into by the Company which is connected in nature or which requires the making of recommendation to the independent shareholders of the Company in accordance with the requirements under the Listing Rules.

#### **Part E: General**

1. to ensure that the Audit Committee's terms of reference are made available to shareholders and other interested parties, through being posted on websites of The Stock Exchange of Hong Kong Limited and the Company.
2. to report to the Board, identifying and making recommendations on any matters where action or improvement is needed, and on the matters in the section headed "Duties" under this terms of reference;
3. to ensure that member(s) of the Audit Committee (ideally the chairman) attends the Company's Annual General Meeting to answer any questions relating to the activities and responsibilities of the Audit Committee and to answer relevant questions raised in the meeting held in connection with connected or continuing connected transactions of the Company which require approval by independent

shareholders and answer any questions; and

4. to consider other projects and topics, as requested by the Board.

## **9 Other procedures**

- 9.1 Full minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the Audit Committee meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.
- 9.2 The Board should require such Audit Committee to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

## **10 Date of Adoption**

- 10.1 These revised terms of reference was approved and adopted by the Board on 31 December 2015.
- 10.2 This document has been translated into Chinese. In case of discrepancies between the English version and the Chinese version, the English version shall prevail.