

# **HUA LIEN INTERNATIONAL (HOLDING) COMPANY LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock code: 969)**

## **TERMS OF REFERENCE OF AUDIT COMMITTEE**

### **Constitution/Functions**

1. The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee to review and supervise the Group's financial reporting process and internal controls.

### **Membership**

2. All the members of the Committee should be non-executive directors. The Committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise. The majority of the Committee members must be independent non-executive directors. A quorum shall be two members.
3. The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.

### **Secretary**

4. The company secretary shall be the secretary of the Committee.
5. The Committee may from time to time appoint any person with appropriate qualification and experience as the secretary of the Committee.

### **Meetings**

6. The meetings and proceedings of the Committee are governed by the provisions contained in the Company's Bye-laws.
7. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

### **Attendance at Meetings**

8. The Committee may invite the head of finance (or person occupying the same position), the head of internal audit (where an internal audit function exists), the members of the Board and a representative of the external auditors to attend any

meetings of the Committee. However, at least once a year the Committee shall meet with the external auditors without executive Board members present.

9. Only the members of the Committee are entitled to vote at the meetings.

#### **Annual General Meetings**

10. The Chairman of the Committee or in his/her absence, another member of the Committee, shall attend the Group's annual general meeting and be prepared to respond to shareholders' questions.

#### **Authority**

11. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee of the Group and all employees of the Group are directed to co-operate with any request made by the Committee.
12. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### **Duties**

13. The duties of the Committee shall be:-

##### Relationship with the Group's external auditors

- (a) to be primarily responsible for making recommendation 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 resignation or dismissal of that auditor;

Note: Rule 13.51(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") requires an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the issuer.

- (b) to review and monitor the external auditor's independence and objectivity;

- (c) to review and monitor the effectiveness of the audit process in accordance

with applicable standard and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

- (d) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally;
- (e) to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

#### Review of financial information of the Group

- (f) to monitor integrity of financial statements of the Group and the Group's annual report and accounts, half-year report and quarterly reports (if applicable), and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Group's annual report and accounts, half-year report and quarterly reports (if applicable) 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 other legal requirements in relation to financial reporting;
- (g) In regard to (f) above:-

- (i) members of the Committee must liaise with the Group's Board and senior management;
- (ii) the Committee must meet, at least twice a year, with the Group's external auditors; and
- (iii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or external auditors;

Oversight of the Group's financial reporting system and internal control procedures

- (h) to review the Group's financial controls, internal control and risk management systems;
- (i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;
- (j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (k) to review arrangements for its employees to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters; the Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (l) (where an internal audit function exists) to ensure co-ordination between the internal and external auditors and to ensure that internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor the effectiveness of the internal audit function;

- (m) to review the Group's financial and accounting policies and practices;
- (n) to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (p) to report on all of the above matters to the Board; and
- (q) to consider any other matters specifically referred to the Committee by the Board.

#### **Reporting Procedures**

14. The Committee shall report to the Board after each meeting.
15. The secretary shall circulate the minutes of meetings of the Committee to all members of the Board.

Adopted on 23 March 2012