

HENGTEN NETWORKS GROUP LIMITED

TERMS OF REFERENCE OF AUDIT COMMITTEE

1. Constitution

1.1 Pursuant to the resolution made on 8th August 2000, the Board (“Board”) of Directors (“Directors”) of HengTen Networks Group Limited (the “Company”) resolved to establish an Audit Committee (“Audit Committee”) with the authority, responsibility, and specific duties as described below and a Term of Reference. The Terms of Reference were subsequently revised by the Board on 30th September 2005, 28th March 2012 and 22nd December 2015 pursuant to a Board resolution dated 30th September 2005, 28th March 2012 and 22nd December 2015, respectively.

2. Membership

2.1 The Audit Committee shall only comprise of non-executive Directors.

2.2 The Audit Committee shall comprise a minimum of three members (the “Members”), at least one of whom is an independent non-executive Director with appropriate professional qualification or accounting or related financial management expertise. The majority of the Members must be independent non-executive Directors.

2.3 The Chairman of the Audit Committee (the “Committee Chairman”) shall be appointed by the Board and shall be an independent non-executive Director. In the absence of the Committee Chairman, the remaining Members present shall elect one of the Members to chair the meeting.

2.4 A former partner of Member of the Company’s existing auditing firm should be prohibited from acting as a Member of the Audit Committee for a period of 1 year from the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the latter.

3. Secretary

3.1 The Company secretary or his/her nominee shall act as the secretary of the Audit Committee.

3.2 The Audit Committee may from time to time appoint any other person with appropriate professional qualification and relevant experience as the secretary of the Audit Committee.

4. Authority

4.1 The Audit Committee is granted the authority to investigate into any activity of significance within its terms of reference and to seek any information it requires from any employee of the Group in order to perform its duties. All employees are directed to cooperate as requested by Members of the Audit Committee.

4.2 The Audit Committee is authorized by the Board to obtain, at the Company's expenses, legal or their independent professional advice as necessary to assist the Audit Committee.

Note: Arrangement to seek independent professional advice shall be made through the Company Secretary.

4.3 The Audit Committee is to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, by satisfying themselves as to the effectiveness of the Company's internal controls in relation to the key business risk areas and as to the sufficiency of the external audits in relation to the adequacy and fairness of disclosure.

5. Quorum, Attendance at Meetings and Resolutions

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

5.2 Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.

5.3 Resolutions of the Audit Committee at any meetings shall be passed by a majority of votes of the Members present.

5.4 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

6. Meetings

6.1 The Audit Committee should meet at least 2 times per year. Additional meetings should be held as the work of the Audit Committee demands. The external auditors or any Member of the Audit Committee may request a meeting if they consider that one is necessary.

6.2 At least once a year the Audit Committee should meet with external auditors without the executive Board Members present.

7. Notice of Meetings

7.1 Meetings of the Audit Committee shall be convened by the secretary of the Audit Committee at the request of any of its Members or at the request of external auditors if they consider it necessary.

7.2 Notice of any meetings has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Supporting papers shall be sent to Committee Members and to other attendees as appropriate, at least 3 days in advance of the meeting (or other agreed period).

8. Minutes of Meetings

8.1 The secretary shall minute the proceedings and resolutions of all meetings of the Audit Committee, including recording the names of those present and in attendance.

8.2 Full minutes of Audit Committee meetings shall be kept by the secretary of the Audit Committee and such minutes should be open for inspection at any reasonable times on reasonable notice by any Director.

8.3 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 (generally within 14 clear days) after the meeting.

8.4 Minutes of the Audit Committee should record in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed.

9. Annual General Meeting

9.1 The Committee Chairman or in his/her absence, another Member of the Audit Committee should, as far as practicable, attend the annual general meeting (the “AGM”) and be prepared to respond to any shareholder questions on the Audit Committee’s activities.

10. Duties

10.1 The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company’s financial reporting, risk management and internal control systems. The Audit Committee shall have the following responsibilities, powers and discretion:

Relationship with the Company’s auditors

- (a) To 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) To review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the Audit Commences;

- (c) To 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. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company’s relations with the external auditors.

Review of Company’s financial information

- (e) To monitor integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit 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;
- (f) Regarding (e) above:–
 - (i) Members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, as least twice a year, with the Company’s auditors; and
 - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and it should give due consideration to any matters that have been raised by the Company’s qualified accountant, compliance officer or auditors;

- (g) to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);

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

- (h) to make recommendation to the Board any appropriate extensions or changes in the duties of the Audit Committee;
- (i) to review the Company's financial controls, risk management and internal control systems;
- (j) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;
- (k) to consider major investigations findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (l) to review the findings of internal investigations into any suspected frauds or irregularities or failures of internal controls or infringement of laws, rules and regulations, of significance;

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;

- (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 auditor to management about 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 to the Board, at least annually, on the matters in this code provision and the work and findings of the Audit Committee during the year;
- (q) to review the Company's and the Board's statement(s) on risk management and internal control systems (where one is included in the annual report) prior to endorsement by the Board; and
- (r) to consider other topics, as defined by the Board.

Employees' Concerns

- (s) to review arrangements employees of the Company can use, in confidence and/or anonymous, to raise concerns about possible improprieties in financial reporting, risk management and internal controls 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.

11. Reporting Responsibilities

- 11.1 The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 11.2 The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

12. Other Matters

- 12.1 The Audit Committee shall be provided with sufficient resources to perform its duties;
- 12.2 The Audit Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the website of The Hong Kong Exchanges and Clearing Limited and the Company's website.