



## HERALD HOLDINGS LIMITED

興利集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code : 114)

### Terms of Reference of the Audit Committee

Please find attached the Terms of Reference of the Audit Committee.

#### 1. Constitution

- 1.1 The Audit Committee (the "Committee") is a committee of the Board of Herald Holdings Limited (the "Company") and as such is appointed by and reports to the Board of the Company.

#### 2. Membership

- 2.1 The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members.
- 2.2 At least one of the members shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.
- 2.3 The majority of the Committee shall be independent non-executive directors.
- 2.4 A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of 1 year from the date of his/her ceasing:
- (i) to be a partner of the firm; or
  - (ii) to have any financial interest in the firm, whichever is later.
- 2.5 The Chair of the Committee shall be an independent non-executive member, as the Board shall nominate.
- 2.6 The Company's Secretary (whom failing, a person nominated by the Chair of the Committee) shall be the secretary of the Committee and shall attend all of its meetings.

#### 3. Authority

- 3.1 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 and all employees are directed to co-operate with any request made by the Committee.
- 3.2 The Committee shall have access to sufficient resources to discharge its duties. 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.

#### **4. Attendance**

- 4.1 A quorum shall be two members of the Committee; meetings may be held in person or by other electronics means of communication.
- 4.2 The Finance Director and the Head of Internal Audit (where an internal audit function exists) shall normally attend meetings. Other Board members shall also have the right of attendance. At the request of the Committee, a representative of the external auditors may attend meetings. However, at least once a year the Committee shall meet with the external auditors without executive Board members present.

#### **5. Frequency of Meetings**

- 5.1 The Committee shall meet as its business requires and as determined by its members. The Committee will meet at least twice a year.

#### **6. Duties**

The Committee shall:

##### **Relationship with the Company's auditors**

- 6.1 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;
- 6.2 review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.3 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

##### **Review of financial information of the Company**

- 6.4 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 judgements contained in them. In reviewing these reports 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 Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;

6.5 Regarding 6.4 above:-

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

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

- 6.6 review the Company's financial controls, internal control and risk management systems;
- 6.7 discuss the internal control system with management to ensure the management has performed its duty to have an effective internal control system. 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;
- 6.8 consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 6.9 where an internal audit function exists, to ensure coordination 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;
- 6.10 review the group's financial and accounting policies and practices;
- 6.11 review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- 6.12 ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.13 report to the Board on the matters in this code provision; and
- 6.14 consider other topics, as defined by the Board.

**Other Duties**

- 6.15 review arrangements employees of the Company can use in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independence investigation of these matters and for appropriate follow-up actions; and
- 6.16 act as the key representative body for overseeing the Company's relations with the external auditor.

## **7. Reporting Procedures**

- 7.1 The Chairman of the Committee shall report to the Board on the general conclusions reached at all of its meetings.
- 7.2 Full minutes of the Committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary).
- 7.3 Draft and final versions of minutes of the meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting.

*Adopted on 16 March 2005 and revised on 9 February 2009 and 26 March 2012*

*\*For identification only*