

# UNITED GENE HIGH-TECH GROUP LIMITED

## 聯合基因科技集團有限公司

(the “**Company**”, together with its subsidiaries, the “**Group**”)

### Audit Committee - Terms of Reference

#### **1. Constitution**

- 1.1. The board of directors (“**Directors**”) of the Company (the “**Board**”) resolved to establish an audit committee (the “**Audit Committee**”) prior to the resumption of trading in the shares of the Company on 18 July 2008.

#### **2. Membership**

- 2.1 The Audit Committee shall comprise non-executive Directors only. Members of the Audit 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, a majority of whom should be independent, and at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- 2.2 The Board shall appoint a chairman (the “**Chairman**”) for the Audit Committee who shall be an independent non-executive Director.
- 2.3 A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of one year from the date of his ceasing to be a partner of the firm, or to have any financial interest in the firm, whichever is later.

#### **3. Meetings**

- 3.1 Meetings of the Audit Committee shall be held not less than twice a year. The external auditor may request a meeting if they consider that is necessary. The chief financial officer, the head of internal audit, or a representative of the external auditors shall normally attend meetings.
- 3.2 A quorum of the meeting shall be two members.
- 3.3 In the absence of the Chairman at any meeting of the Audit Committee, the remaining members of the Audit Committee present at any meeting convened in accordance with these terms of reference shall elect among the remaining members of the Audit Committee to act as the Chairman.
- 3.4 The finance director, the head of internal audit of the Company (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors of the Company shall normally attend meetings of the Audit Committee, however they shall not be counted in the quorum.
- 3.5 Other Directors who are not members of the Audit Committee shall have the right to attend any meetings of the Audit Committee. However they shall not be counted in the quorum.

- 3.6 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.
- 3.7 Resolutions of the Committee at any meeting shall be passed by a majority of votes of members if more than two members are present and by a unanimous vote if only two members are present.
- 3.8 The attendance of members at meetings of the Committee shall be recorded by the Company Secretary and disclosed in the corporate governance report annually.

#### **4. Authority**

- 4.1 The Audit Committee should be provided with sufficient resources to perform its duties, including the authority to exercise the following powers:
- a. to have unrestricted access to other members of the Board, senior management, the qualified accountant and external auditor in execution of its duties and responsibilities. All relevant employees will be directed to co-operate with any request made by the Audit Committee;
  - b. to obtain outside legal or other independent professional advice in accordance with the procedures adopted by the Company from time to time and to secure the attendance of any independent third parties with relevant experience and expertise, if it considers necessary;
  - c. to monitor whether the Group's management has, in the performance of its duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time prescribed by the Stock Exchange and/or other rules and regulations laid down by the Board or a committee thereof;
  - d. to report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringement of laws, rules and regulations which come to its attention;
  - e. to review the Group's internal control procedures and system;
  - f. to review the performance of the Group's employees in the accounting and internal audit department;
  - g. to make recommendations to the Board for the improvement of the Group's internal control procedures and system;
  - h. to request the Board to convene a shareholders' meeting for purposes of revoking the appointment of any Director and to dismiss any employees if there is evidence showing that the relevant Director and/or employee has failed to discharge his duties properly; and
  - i. to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group.

## **5. Responsibilities**

### **5.1 Relationship with the Company's auditor**

- 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 act as the key representative body for overseeing the Company's relations with the external auditor;
- c. 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 external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- d. 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;

### **5.2 Review of the Company's financial information**

- a. 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 audit qualifications;
  - v. compliance with accounting standards; and
  - vi. compliance with Listing Rules and legal requirements in relation to financial reporting;
- b. in regard to clause (a) above, the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors;
- c. in regard to clause (a) above, the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and 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;

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

- a. to review the Company's financial controls, internal control and risk management systems; and to review arrangements by which employees of the Company can rely on, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements, including a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) are in place to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matters relating to the Company for the fair and independent investigation of these matters and for appropriate follow-up actions;
- b. to discuss the internal control system with management to ensure that 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;
- c. to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- d. 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;
- e. to review the group's financial and accounting policies and practices;
- f. 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;
- g. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- h. to act as the key representative body for overseeing the Company's relations with external auditor;
- i. to report to the Board on the matters in the code provisions as set out in Appendix 14 of the Listing Rules; and
- j. to consider other topics, as defined by the Board.

## **6. Secretary**

- 6.1 The Company Secretary or his/her nominee shall act as the secretary of the Audit Committee.
- 6.2 In the absence of the secretary of the Audit Committee, the members of the Audit Committee present at the meeting shall elect another person to act as the secretary.

## **7. Notice**

- 7.1 Unless otherwise agreed by all members of the Audit Committee, a meeting of the Audit Committee shall be called by at least seven days' notice.
- 7.2 A member of the Audit Committee may and, on the request of a member of the Audit Committee, the secretary to the Audit Committee shall, at any time summon a meeting of the Audit Committee. Notice shall be given to each member of the Audit Committee orally in person, in writing, by telephone, by telex, telegram, facsimile transmission, electronic mail at the telephone, facsimile, change of address or electronic email address from time to time notified to the secretary by such member of the Audit Committee by in such other means as the members may from time to time determine. Any notice given orally shall be confirmed in writing.
- 7.3 Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Audit Committee for the purposes of the meeting.

## **8. Reporting procedures**

- 8.1 Full minutes of Audit Committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the Company Secretary). All draft and final versions of minutes of the meetings shall be kept and circulated to all committee members for their comment and records within a reasonable time after the meeting.
- 8.2 The Audit Committee shall report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Audit Committee, the Chairman shall report the findings and recommendations of the Audit Committee to the Board.
- 8.3 The Chairman, or in the absence of the Chairman, a member of the Audit Committee or failing this his/her duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to shareholders' questions.

## **9. Continuing applications of the articles of association of the Company and "A Guide for Effective Audit Committee"**

- 9.1 The articles of association of the Company regulating the meetings and proceedings of the Board so far as the same are applicable and not inconsistent with the provisions of this terms of reference shall apply, mutatis mutandis, to regulate the meetings and proceedings of the Audit Committee.

- 9.2 The provisions of “A Guide for Effective Audit Committee” published by the Hong Kong Society of Accountants (as it was then known) in February 2002 shall, to the extent not inconsistent with the provisions of this terms of reference, be deemed to be incorporated into these terms of reference, mutatis mutandis.

## **10. Powers of the Board**

- 10.1 The Board may, subject to compliance with the articles of association of the Company and the Listing Rules, amend, supplement and revoke the provisions of these terms of reference and any resolution passed by the Audit Committee provided that no amendments to and revocation of the provision of these terms of reference and the resolutions passed by the Audit Committee shall invalidate any prior act and resolution of the Audit Committee which would have been valid if such provisions or resolutions had not been amended or revoked.
- 10.2 Where the Board disagrees with the Audit Committee’s view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

## **11. Miscellaneous**

- 11.1 These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. The Listing Rules) in Hong Kong.
- 11.2 The English text of these terms of reference will prevail over the Chinese text in case of any inconsistency.