



# ZHONG HUA INTERNATIONAL HOLDINGS LIMITED

中華國際控股有限公司\*

*(Incorporated In Bermuda with limited liability)*

(Stock Code: 1064)

## Terms of Reference for the Audit Committee of Zhong Hua International Holdings Limited

### Functions and Objectives

The Audit Committee (the "Committee") is appointed by the board of directors (the "Board") of Zhong Hua International Holdings Limited (the "Company") with a view to assisting the Board in overseeing and reviewing:

1. the effectiveness of the Company's internal control, risk management system and regulatory compliance;
2. the balance, transparency and integrity of the Company's financial statements and the application of financial reporting principles;
3. the relationship with the external auditor and its independent assessment; and
4. the effectiveness of the Company's internal audit function.

### Composition

1. The Committee must comprise non-executive directors only. The Committee must also comprise at least three members, with the majority being independent non-executive directors.
2. At least one of the independent non-executive directors serving as a member of the Committee must possess appropriate professional qualifications or accounting or related financial management expertise.
3. The Committee must be chaired by an independent non-executive director.
4. Any former partner of the Company's existing audit firm is precluded to be a member of the 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).
5. Unless it is agreed otherwise, the Company Secretary of the Company should assume the role of Secretary for the Committee.

### Proceedings of Meetings

1. The meetings and proceedings of the Committee are governed by the provisions of the Articles of Association of the Company for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by the regulations imposed by the Board.
2. Two members shall form a quorum for a meeting.

3. The Committee may invite such other persons (e.g. the external audit engagement partner) to its meetings as it deems necessary. Other members of the Board shall also have the right of attendance.
4. Meetings shall be held not less than two times a year. Special meetings may be convened as required. The Secretary of the Committee will convene a meeting on receipt of a request by the external or internal auditor.
5. The Secretary of the Committee shall circulate the meeting agenda and supporting documentation to all members of the Committee a reasonable period in advance of each meeting.
6. Full minutes of the Committee should be kept by the Secretary of the Committee.
7. The draft and final version of the minutes of the Committee meetings should be sent to all members for their comment and records respectively within a reasonable time after each meeting.
8. The chairman of the Committee or another member of the Committee shall attend the Board meeting at which the financial statements are approved.
9. The Committee will meet with the external auditor at least once a year without the presence of executive directors of the Board.

#### **Authorities**

The Board authorizes the Committee:

1. to perform activities within the scope of these terms of reference;
2. to engage independent counsel and/or other independent professional advisers as it deems necessary to carry out its duties; and
3. to obtain information required by the members of the Committee in pursuit of their duties, and have access to members of management and other employees for such purpose.

#### **Duties**

The authority of the Committee is derived from the Board, the Committee is therefore obliged to report to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so. The duties of the Committee are as follows:

1. **Oversight of the Company's Financial Reporting System and Internal Control Procedures**
  - (i) to review the Company's financial control, internal control and risk management system;
  - (ii) to discuss the internal control system with the management of the Company to ensure that 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 programs and budget of

the Company's accounting and financial reporting function;

- (iii) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiatives and management's response to these findings;
- (iv) 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;
- (v) to review the Group's financial and accounting policies and practices;
- (vi) to review the external auditor's management letter, any material queries raised by the auditor to the management about accounting records, financial accounts or system of control and management's response;
- (vii) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (viii) to review the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, 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;
- (ix) to report to the Board on the matters in the code provision under C.3 in the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"); and
- (x) to consider other topics, as defined by the Board.

## **2. Review of the Company's Financial Information**

- (i) to monitor integrity of the Company's financial statements and annual reports and accounts, half-year reports 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 Committee should focus particularly on:
  - any changes in accounting policies and practices;
  - major judgmental areas;
  - significant adjustments resulting from audit;
  - the going concern assumptions and any qualifications;
  - compliance with accounting standard; and
  - compliance with the Listing Rules and legal requirements in relation to financial reporting.

(ii) Regarding 2 (i) above:

- 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 auditor; and
- the 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 functions, compliance officer or auditor.

### **3. Relationship with the Company's Auditor**

- (i) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment 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;
- (ii) to 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;
- (iii) 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed; and
- (iv) to act as the key representative body for overseeing the Company's relations with the external auditor.

#### **Reporting responsibilities**

The Committee should regularly update the Board about its activities and any matters that may significantly impact on the financial condition or affairs of the business and make appropriate recommendations.

#### **Date of Adoption**

The terms of reference were adopted by the Board on 29 March 2012 with immediate effect.

*The English text of the terms of reference for the Audit Committee shall prevail over the Chinese translation in case of any discrepancies or inconsistency.*

*\*For identification purpose only*