



## **TONGDA GROUP HOLDINGS LIMITED**

通達集團控股有限公司

### **Audit Committee Terms of Reference**

(Approved by the Board on 8 March 2005 and last reviewed on 14 March 2012)

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Reference to “the Committee” shall mean the Audit Committee of Tongda Group Holdings Limited.

Reference to “the Board” shall mean the board of directors (the “Director”) of Tongda Group Holdings Limited.

Reference to “the Company” shall mean Tongda Group Holdings Limited and reference to “the Group” shall mean the company and its subsidiary undertakings.

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#### **1. MEMBERSHIP**

- 1.1 The members of the Committee shall be appointed by the Board from amongst the non-executive Directors of the Company.
- 1.2 The majority of the members of the Committee shall be independent non-executive Directors (“INED”) and at least one of whom must have the appropriate professional qualifications or accounting or related financial management expertise as required under Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- 1.3 Chairman of the Committee shall be appointed by the Board and must be an INED.
- 1.4 The Committee shall consist of not less than three members, all of whom must be non-executive Directors.
- 1.5 A former partner of the Company's existing external auditors should be prohibited from acting as a member of the Committee for a period of one year from his ceasing:
  - (i) to be a partner of the existing external auditors; or
  - (ii) to have any financial interest in the existing external auditors whichever is the later.
- 1.6 The Board may, from time to time, at their discretion, amend the terms of reference or adopt new terms of reference or change the composition of

the members of the Committee.

## **2. SECRETARY**

2.1 The company secretary (the "Company Secretary") of the Company shall be the secretary of the Committee. In the absence of the Company Secretary, his/her delegate(s) or any person elected by the members present at the meeting of the Committee, shall attend the meeting and take minutes.

## **3. MEETING AND PROCEEDINGS**

3.1 Unless otherwise stated herein, the meetings and proceedings of the Committee shall be governed by the provisions contained in the Company's Articles of Association (as amended from time to time) for regulating the meetings and proceedings of Directors.

3.2 Meetings of the Committee shall be planned at the beginning of each financial year of the Company, and shall not be less than two times a year to discharge of its duties. Additional meetings of the Committee may be held as and when required.

3.3 The Committee shall meet with the external auditors at least twice a year. The external auditors may request a meeting if they consider necessary.

3.4 Executive Directors, the external auditors or other persons who are appropriate may be invited to attend particular meetings to answer specific points or concerns.

3.5 The quorum of a Committee meeting shall be any two members.

3.6 Meeting could be held in person, by telephone or by video conference. Members of the Committee may participate in a meeting by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.

3.7 Without prejudice to any requirement under the Listing Rules, a resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

## **4. NOTICE OF MEETINGS**

4.1 A meeting of the Committee may be convened by any of its members or by the Company Secretary.

4.2 Unless otherwise agreed by all the members of the Committee, notice of at least 14 days shall be given for a regular meeting of the Committee. For all other meetings of the Committee, reasonable notice shall be given.

4.3 Agenda and accompanying supporting papers shall be sent to all members of the Committee and to other attendees as appropriate at least 3 days before the date of the meeting (or such other period as the members may agree).

## **5. MINUTES AND RECORDS**

5.1 Proper minutes of Committee meetings shall be kept by the Company Secretary and shall be open for inspection by any Director at any reasonable time on reasonable notice by the Director.

5.2 Minutes of Committee meetings shall record in sufficient detail the matters considered by the Committee and decision reached, including any concerns raised by the Committee members or dissenting views.

5.3 Draft and final versions of minutes shall be circulated to all Committee members for their comment and records, within a reasonable time after the meeting is held.

## **6. ANNUAL GENERAL MEETINGS**

6.1 The Chairman of the Committee shall endeavor to attend the Annual General Meetings of the Company and be prepared to respond to any shareholder questions on the Committee's work and responsibilities.

6.2 If the Chairman of the Committee is unable to attend an Annual General Meeting of the Company, he shall arrange for another member of the Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any shareholder questions on the Committee's work and responsibilities.

## **7. RESPONSIBILITIES**

The responsibilities of the Committee shall include such responsibilities set out in the relevant code provisions of the Corporate Governance Code (the "CG Code") as contained in Appendix 15 of the Listing Rules (as amended from time to time). Without prejudice to any requirement under the CG Code, in respect of the Group, the Committee shall be responsible for the following with a view to achieve the above purposes:

7.1 Relationship with Company's external auditors:

- (A) to be primary responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;

- (B) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (C) to discuss with the external auditors the nature and scope of the audit and reporting obligations before audit commences;
- (D) to develop and implement policy on engaging an external auditors 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;
- (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;
- (F) to act as the key representative body for overseeing the Company's relation with the external auditors; and
- (G) To discuss with the external auditors problems or reservations they may have during audit process in the absence of the management.

#### 7.2 Review of financial information:

- (A) to monitor the integrity of the Company's financial statements and the annual report and accounts and 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 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 qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.
- (B) In regard to 7.2(A) above:
  - (i) members of the Committee should liaise with the Board,

and the Chief Financial Officer and the Committee must meet, at least twice a year, with the Company's external auditors; and

- (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Chief Financial Officer, or failing him /her, the staff responsible for the accounting and financial reporting function, compliance officer or external auditors.

### 7.3 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;
- (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 auditors' management letter, any material queries raised by the external auditors to management about accounting records, financial accounts or systems of control and management's response; and
- (G) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

#### 7.4 Other responsibilities:

- (A) to 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 the fair and independent investigation of such matters and for appropriate follow-up action;
- (B) to satisfy itself that proper business ethics have been followed;
- (C) to report all relevant matters to the Board;
- (D) to conduct such investigation in relation to matters or activity within its terms of reference; and
- (E) to consider other topics or carry out any other duties as the Board may delegate from time to time and report back to the Board on their discussion or recommendations.

### **8. AUTHORITY**

The authorities of the Committee shall include such authorities set out in the relevant code provisions of the CG Code as contained in Appendix 15 of the Listing Rules (as amended from time to time). Without prejudice to any requirement under the CG Code, the Committee shall have the following authorities:

8.1 The Committee has unrestricted access to the Chairman, the Chief Financial Officer and the external auditors.

8.2 All members of the Committee shall have access to the advice and services of the Company Secretary with a view to ensuring that procedures of the Committee and all applicable rules and regulations are followed, and separate and independent access to the Company's senior management for obtaining necessary information.

8.3 Any member of the Committee shall have separate and independent access to outside legal or other independent professional advice in connection with his/her duties at the Company's expense upon reasonable request to the Chairman of the Committee and the Chairman of the Company.

8.4 The Committee shall have access to sufficient resources in order to perform its duties. In the event that the Committee determines that it has insufficient resources, it may make a request for additional resources to the Board through the Company Secretary.

### **9. REPORTING RESPONSIBILITIES**

9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

9.2 The Committee shall also report to the shareholders of the Company in the Company's Corporate Governance Report on the work performed during the year in discharging its responsibilities and duties.

9.3 Where the Board disagrees with the Committee's views on the selection, appointment and resignation or dismissal of the external auditor, the Committee shall prepare a statement, for inclusion in the Company's Corporate Governance Report, explaining its recommendations. The Board shall include in the same report the reason(s) why the Board takes a different view.

*Note:* If there is any inconsistency between the English and Chinese versions of this Terms of Reference, the English version shall prevail.