



# HSIN CHONG GROUP HOLDINGS LIMITED

新昌集團控股有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00404)**

## AUDIT COMMITTEE

### TERMS OF REFERENCE

#### 1. CONSTITUTION

- 1.1 At a meeting held on 3 September, 1998, the board of directors (the “Board”) of Hsin Chong Group Holdings Limited (the “Company”, and together with its subsidiaries, the “Group”) resolved to establish a committee of the Board known as the audit committee (the “Committee”).
- 1.2 The Board has revised the terms of reference of the Committee in accordance with the provisions of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as amended from time to time.

#### 2. OBJECTIVES

- 2.1 The main objective of the Committee is to assist the Board in fulfilling its oversight responsibilities. In pursuing this objective, the Committee will:
  - (a) appraise the quality of the audit effort of the Company’s internal and external auditors;
  - (b) serve as an independent and objective party to review the financial information presented by management to shareholders, regulators and the general public;
  - (c) ascertain the adequacy of the Company’s system of internal controls which management and the Board have established; and

- (d) serve as useful channel of communication between the Board and the external and internal auditor(s) on matters related to and arising out of the external and internal audit.

### **3. AUTHORITY**

- 3.1 The Committee is authorised by the Board to investigate any activity within the scope of its duties and responsibilities as it deems appropriate. It is authorised to seek any information it requires from any officer or employee of the Company and the Group and all employees are directed to co-operate with any request made by the Committee.
- 3.2 The Committee is authorised by the Board to engage any firm of accountants, lawyers or other professionals to provide independent counsel and advice and to assist in any review or investigation on such matters as the Committee deems appropriate.
- 3.3 The Committee should be provided with sufficient resources to perform its functions properly.

### **4. DUTIES AND RESPONSIBILITIES**

- 4.1 The duties and responsibilities of the Committee shall in general include the followings:
  - (a) to provide an open avenue of communication between the internal auditor(s), the external auditor and the Board;
  - (b) to review with the external and internal auditor(s), their audit plans and scope to ensure that co-ordination of audit effort is maximised where possible;
  - (c) to ensure that assistance is given by the officers and/or employees of the Company and the Group to the external and internal auditor(s) and no restrictions are placed on them by management;
  - (d) to review with the auditor and report to the Board findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Hong Kong law, rule or regulation which has or is likely to have a material impact on the Company's operating results and / or financial position;

- (e) to review arrangements employees of the Group 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 independent investigation of these matters and for appropriate follow-up action;
- (f) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (g) to report to the Board on the matters in this terms of reference; and
- (h) to carry out such other functions as may be delegated to the Committee by the Board from time to time.

4.2 The duties and responsibilities of the Committee shall also specifically cover the following areas:

***4.2.1 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) to review the Group's financial and accounting policies and practices;
- (e) 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;
- (f) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- (g) to report to the Board on the matters in this terms of reference; and
- (h) to consider other topics, as defined by the Board.

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

- (a) 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 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 Committee should discuss with the external auditor of the Company the nature and scope of the audit and reporting obligations before the audit commences; and
- (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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

#### ***4.2.3 Internal Audit***

- (a) to consider the appointment and removal of the Company's internal auditor(s), and to deal with any questions of resignation or dismissal;
- (b) to consider and review with the internal auditor(s):
  - (i) the scope and results of the internal audit plan and monitor management's response and actions to address any noted weaknesses;
  - (ii) any difficulties encountered in the course of internal audit, and any restrictions placed on internal audit scope of work or access to required information or personnel;

- (iii) the plans for future audits to be conducted; and
  - (iv) any changes required in the scope of previously approved internal audit plan; and
- (c) to ensure co-ordination between internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness.

#### ***4.2.4 Review of the Company's Financial Information***

- (a) to monitor integrity of the Company's the 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 judgemental 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.
- (b) Regarding the above paragraph 4.2.4(a) 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 auditor; 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.

## **5. MEMBERSHIP**

- 5.1 The Committee shall be appointed by the Board from amongst the non-executive directors of the Company only. The Committee shall consist of a minimum of three members, at least one of whom is an independent non-executive director of the Company with appropriate professional qualifications on accounting or related financial management expertise as required under the Listing Rules. The majority of the Committee members must be independent non-executive directors of the Company.
- 5.2 A member must be able to exercise independent judgement when discharging his duties. The Board can consider a director independent if any relationship he may have would not materially interfere the exercise of his independent judgement as a Committee member.
- 5.3 The chairman of the Committee shall be appointed by the Board and must be an independent non-executive director of the Company.
- 5.4 A former partner of the Company's existing auditing firm should be prohibited from acting as a member of the Committee for a period of one 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 later.
- 5.5 The Committee members should collectively have broad business experience, sound knowledge of the Group's business, and an understanding of finance, accounting and auditing matters. In addition, the Committee members must have commitment and available time to perform their duties.
- 5.6 A member who wishes to retire or resign shall provide written notice to the Board.

## **6. MEETINGS AND RESOLUTIONS**

- 6.1 The Committee shall meet at least twice in any one financial year or more frequently as the Board or the Committee considers that circumstances require more frequent meetings.

- 6.2 The chief financial officer or finance director or financial controller of the Company and/or the Group or his representative, representative from the internal auditor(s) and of the representatives the external auditor shall normally attend the meetings of the Committee. Other Board members shall also have the right to attend or may attend by invitation.
- 6.3 The Committee may instruct any officer or employee of the Group to attend any meeting and provide pertinent information as necessary.
- 6.4 The quorum for meetings of the Committee will be two members.
- 6.5 A member of the Committee may, and the secretary of the Company on the request of a member of the Committee shall, at any other time convene a meeting of the Committee.
- 6.6 At least once a year, the Committee shall meet with the internal and external auditor(s) respectively (and if the Committee directs, without the presence of executive management) to discuss any matters that either the Committee or either of the internal and/or external auditor believe should be discussed privately.
- 6.7 The secretary of the Company shall be the secretary for all meetings of the Committee unless the Committee decides at any meeting that any other person to act as the secretary of that meeting.
- 6.8 Full minutes of the Committee meetings should be kept by the secretary of the Committee. Draft and final versions of the minutes of the meeting should be sent to all Committee members for their comment and records within a reasonable time after the meeting.
- 6.9 Notice of meeting of the Committee shall be circulated to all members of the Committee at least seven days before the date of meeting. The members of the Committee may consent to a shorter notice whereupon the requisite notice period shall be waived. An agenda accompanied by meeting papers shall be sent to all members of the Committee at least three days before the date of meeting (or such other period as the Committee may agree).
- 6.10 Whenever possible, Committee meetings shall be scheduled to allow for adequate time for the Committee to transact business so that the matters can be reported to the Board on a timely and effectively manner.

6.11 Should the Committee thinks fit, all matters to be discussed or transacted at Committee meetings can be conducted by circulation of relevant documents to all members. A written resolution signed or otherwise agreed in writing by all members of the Committee shall be as valid and effective for all purposes as if it had been duly resolved at a meeting of the Committee duly convened and held.

6.12 Save as provided in this clause 6, the meetings and proceedings of the Committee shall be governed by the provisions of the Company's bye-laws for regulating the meetings and proceedings of the Board.

## **7. REPORTING**

7.1 The Committee shall report to the Board with such recommendations as the Committee may deem appropriate.

7.2 Minutes of Committee meetings and written resolutions passed by the Committee shall be tabled before the Board at regular Board meetings.

Hong Kong, 28 April 2016