



罕王  
HANKING

# CHINA HANKING HOLDINGS LIMITED

## 中國罕王控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 03788)**

### **Terms of Reference and Operating Model of the Audit Committee (the “Committee”)<sup>1</sup>**

(effective from 17 December 2015, updated on 4 January 2019)

#### **MEMBERSHIP**

1. The Committee shall comprise three (or more) members appointed by the board of directors (the “**Board of Directors**”) of China Hanking Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”), all of whom shall be non-executive directors and the majority of whom shall be independent non-executive directors defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Members of the Committee shall meet the following requirements:
  - (a) members shall have skills and experience compatible with the Company’s business;
  - (b) members shall have a certain level of financial knowledge; and
  - (c) at least one member who is an independent non-executive director shall have accounting or relevant financial management expertise in compliance with requirements on the qualifications of financial professionals of the Committee in the Listing Rules (including amendments).
2. The Committee shall have one chairman to be acted by an independent non-executive director responsible for presiding over the work of the Committee. The chairman shall be appointed from among members by the Board of Directors.
3. Members of the Committee shall be nominated by the chairman of the Board of Directors or the nomination committee of the Company, subject to election by a majority vote by all directors of the Board of Directors.

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<sup>1</sup> These terms of reference and the operating model are written in Chinese and the English version is intended only for reference. In case of any inconsistency between the Chinese and English version, the Chinese version shall prevail.

4. The members of the Committee shall have the same term of office as their directorship and the term of office of members is renewable upon re-election. During the term of office, if members no longer act as non-executive directors or independent non-executive directors of the Company, they shall automatically lose their office as members of the Committee and the Board of Directors shall arrange for replacements to fill the vacancies in accordance with the provision of article 3 referred to above.
5. The Company's internal audit department responsible for internal audit shall be led directly by the Committee. It is a working body of the Committee.

## **FREQUENCY AND PROCEEDINGS OF MEETINGS**

6. The Committee shall convene meetings at least twice a year. If necessary, the Committee shall convene additional meetings. The Committee shall coordinate with the Company in the announcement of interim report and annual report and shall convene a regular meeting at least before each report announcement. The chairman of the Committee may convene meetings at his/her discretion or upon the request of the external or internal auditor. The Board of Directors or any one member of the Committee may also request for the convening of meetings of the Committee.
7. The chairman of the Committee may decide to convene additional meetings at his/her discretion.
8. Notice of meeting shall be made to all members in seven days prior to the meeting. Meetings shall be presided over by the chairman of the Committee and the chairman, if unable to attend, may appoint another member who is an independent non-executive director to preside over the meeting. Meetings shall be held by more than two-thirds of the members attending the meeting. Each member has one voting right. Resolutions adopted at the meetings shall be passed by a majority vote of all members.
9. The Committee shall vote on a show of hands or by way of poll at the meetings. Interim meetings may be convened in the form of voting by communication means.

The person-in-charge of the internal audit department may attend the meetings of the Committee as an observer. When necessary, the Committee may invite directors and senior management of the Company to attend the meetings as observers.

10. The Committee may engage intermediaries to provide professional advice for its decision-making if necessary and the expenses incurred shall be borne by the Company.
11. The procedures for convening the meeting, means of voting and resolutions passed at the meeting of the Committee shall comply with relevant laws, regulations, the articles of association and the provisions of these rules.

12. The Committee may appoint the company secretary to handle the following routine affairs:
  - (a) distribute meeting schedules and relevant supporting materials to members in seven days prior to the meeting;
  - (b) maintain minutes of meeting, sort out opinions of all members attending the meeting and deliver minutes to them for signing; and
  - (c) draft and final versions of minutes of the meetings should be sent to all Committee members for their comment and records respectively, in both cases within 14 days upon conclusion of the meeting.

The minutes shall be maintained by the company secretary.

13. Members attending the meeting and persons attending the meeting as observers shall keep confidential of all matters discussed at the meeting. Unauthorized disclosure of the relevant information shall be prohibited.

#### **AUTHORIZATION**

14. The Committee is authorized to investigate any activities relating to the Group in accordance with its terms of reference and all the staff, auditors (both external and internal) and/or external consultants of the Group shall cooperate with the Committee. The Committee is authorized by the Board of Directors to seek outside legal advice or other independent professional advice when it considers necessary and invite outsiders with relevant experience and professional knowledge to attend the meetings. The Committee considers major investigation findings on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and the response of the Company's management (the "**Management**") to these findings.
15. The Committee is authorized to supervise the financial reporting system, risk management and internal control system of the Company, and shall report to the Board of Directors any suspicion of frauds or irregularities, failures of internal control, material risks or suspected infringement of laws, regulations and rules which come to its attention and are of sufficient importance to warrant the Board of Directors for attention.
16. Where the Board of Directors disagrees with the Committee's views over the selection, appointment, resignation or removal of the external auditors, the Committee will arrange for the "Corporate Governance Report" in the annual report to include an explanation of the Committee's views and the reasons why the Board of Directors has taken a different view.
17. The Committee is to be provided with adequate resources to perform its duties.

## **RESPONSIBILITIES**

18. The Committee is to act as a focal point for communication among other directors, the Management, the external auditors and the internal auditors in respect of financial and other reporting, risk management and internal controls, external and internal audits and such other matters as the Board of Directors determines from time to time.
19. The Committee is to assist the Board of Directors in fulfilling its duties by providing an independent review and supervision of financial reporting, satisfying themselves as to the effectiveness of the risk management and internal controls of the Group, and as to the adequacy of the external and internal audits.

## **DUTIES, POWERS AND FUNCTIONS**

20. The Committee shall:
  - A. coordinate the relationship between the Company and the auditors
    - (a) be responsible for making recommendations to the Board of Directors on the appointment, re-appointment and removal of the external auditors, approve the remuneration and terms of engagement of the external auditors, and handle any questions relating to the resignation or dismissal of the external auditors;
    - (b) examine the independence and objectivity of the external auditors, the effectiveness of the review procedures and the scope of the external audit, including the letter of engagement, and discuss with the external auditors the nature and scope of the audit and reporting obligations prior to commencement of the audit, understand the factors considered by the external auditors in their determination of the scope of audit, and consider and approve the external auditors' fees as discussed by the Management on an annual basis;
    - (c) assess the support obtained by the external auditors from the Management, including the receipt of records and data as requested, seek the Management's advice on the need for the external auditors to respond to the Group, and make inquiries as to the presence of any difference in opinions between the external auditors and the Management resulting in the issuance of a qualified opinion report by the external auditors in respect of the Group's financial statements if no satisfactory resolution is reached;
    - (d) require the external auditors to provide data on an annual basis in respect of their maintenance of independence and supervision over the compliance with policies and procedures adopted by relevant regulations, including the provision of non-audit services and the requirements for the rotation of partners and staff involved in the audit; prepare and implement the policy in respect of the non-audit services provided

by the external auditor; 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 of Directors, identifying and making recommendations on any matters where action or improvement is needed. 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 2 years from the date of ceasing, whichever is later:

- (1) to be a partner of the firm; or
- (2) to have any financial interest in the firm.

B. review the financial information of the Company

- (e) be familiar with the financial reporting principles and conventions adopted by the Group in the preparation of financial statements;
- (f) monitor and review the completeness of the financial statements and annual reports as well as financial accounts, interim reports and quarterly reports (if applicable) and review the material opinions in respect of the financial reporting in statements and reports, particularly on:
  - (i) any changes in accounting policies and conventions;
  - (ii) major judgmental matters;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting and audit standards; and
  - (vi) compliance with the Listing Rules and other legal provisions in relation to financial reporting;
- (g) in regard to (f) above:
  - (i) members of the Committee shall liaise with the Board of Directors and senior management and the Committee shall meet, at least twice a year, with the external auditors; and

- (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's personnel responsible for the accounting and financial reporting function, audit director or auditors;
- (h) review draft statements before submission to the Board of Directors for approval.
- C. supervise the financial reporting system, risk management and internal control system of the Company
  - (i) review the Company's financial controls, risk management and internal control systems; and review, at least once a year, the effectiveness of the risk management and internal control system, including financial controls, operation controls and compliance controls;
  - (j) review with the Group's management, external auditors and internal auditors on the adequacy of the Group's policies and procedures relating to risk management and internal controls (including the controls over finance, operation and compliance), and review any statements of directors to be contained in the annual accounts prior to submission to the Board of Directors for approval;
  - (k) consider and approve the policies on risk management and internal control submitted by the Management and supervise the implementation of such policies by the Management, as well as supervising the design, implementation of and monitoring over the risk management and internal control system by the Management; discuss with the Management on the scope of the risk management and internal control system and ensure that the Management has performed its duties in ensuring the effectiveness of the risk management and internal control system, including the resources required, the qualifications and experience of accounting and financial reporting personnel, and the adequacy of training programs and budgets for relevant staff;
  - (l) examine internal findings and the Management's response in respect of any suspicion of frauds or irregularities, failures of internal control, material risks or suspected infringement of laws, regulations and rules;
  - (m) review and monitor the scope, effectiveness and result of the internal audit function, ensure the coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;
  - (n) review the Group's financial and accounting policies and practices;

- (o) discuss with the external auditors any recommendations arising from the audit (in the absence of the Management when necessary), examine draft recommendations proposed by the auditors to the Management in respect of the audit (the “**Management Letter**”) and any significant issues raised by the auditors to the Management concerning accounting records, financial accounts or monitoring systems (including the Management’s response to each of the items);
- (p) ensure that the Board of Directors will provide a timely response to the issues raised in the external auditors’ Management Letter;
- (q) prohibit the engagement of the external auditors to perform non-audit services, except for tax-related services, in general circumstances and, where such engagements are necessary given the external auditors’ expertise in specific areas, obtain the prior approval of the Committee which will supervise the independence and objectivity of the external auditors;
- (r) discuss with the Board of Directors on the policies relating to the recruitment of the external auditors’ employees or former employees and monitor the application of the relevant policies; and consider if the relevant recruitments would impair the judgment or independence of auditors in the audit;
- (s) review arrangements enabling the staff to raise concerns over possible irregularities in respect of financial reporting, risk management and internal controls or other matters in confidence; and ensure the availability of appropriate arrangements in the Company for fair and independent investigations of the relevant matters and the adoption of proper follow-up actions;
- (t) establish relevant procedures to handle the following complaints:
  - (i) receive, retain and handle complaints of the Company relating to accounting, internal accounting controls and audit; and
  - (ii) receive and handle complaints or anonymous reports from staff relating to accounting and audit and ensure that they are kept confidential.

D. other duties

- (u) inform the Board of Directors of any major progress when fulfilling the above duties;
- (v) consider other topics raised by the Board of Directors;
- (w) make recommendations to the Board of Directors for any appropriate extensions or changes in the duties of the Committee; and

- (x) exercise other relevant duties and powers provided or recommended by the Listing Rules and/or relevant applicable laws, regulations and rules that are enforceable from time to time.

## **DECISION-MAKING PROCEDURES**

21. The internal audit department is responsible to undertake proper preparations for decision making by the Committee and to provide relevant written information of the Company:
  - (a) relevant financial reports of the Company (including interim and annual reports);
  - (b) work reports of internal and external audit bodies;
  - (c) external audit contracts and relevant work reports;
  - (d) audit reports of the Company's significant connected transactions; and
  - (e) other relevant information.
  
22. The Committee shall consider reports provided by the internal audit department and submit relevant written resolutions and materials to the Board of Directors for discussion. The Committee shall consider any significant or unusual items that are, or may need to be, reflected in such financial reports and accounts and shall give appropriate consideration to any matters that have been raised by the chief accountant or the external auditors of the Company, focusing particularly on the following items:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental matters;
  - (c) significant adjustments resulting from the audit;
  - (d) the going concern assumptions and any qualifications;
  - (e) compliance with relevant necessary accounting standards; and
  - (f) compliance with the Listing Rules and relevant laws and regulations on financial reporting, including new regulations recently announced by professional and regulatory bodies and their potential impact on financial reports.



23. The Committee shall report to the Board of Directors on a regular basis. The chairman of the Committee shall report the findings and recommendations of the Committee to the Board of Directors at the next meeting of the Board of Directors following a meeting of the Committee. The Committee shall submit to the Board of Directors a report on the work and findings of the Committee for the year at least once a year.