



## WINSHINE SCIENCE COMPANY LIMITED

瀛晟科學有限公司\*

*(Incorporated in Bermuda with limited liability)*

(the “Company”)

(Stock Code: 209)

### AUDIT COMMITTEE TERMS OF REFERENCE

These terms of reference were approved and adopted by resolutions of the board (the “**Board**”) of directors (the “**Directors**”, each as a “**Director**”) of the Company passed on 21 September 2005 and amended by resolutions of the Board passed on 21 October 2019.

#### 1. Membership

- 1.1 Members of the audit committee (the “**Audit Committee**”) of the Company shall be appointed by the Board from amongst the members of the Board.
- 1.2 A majority of the members of the Audit Committee should be independent non-executive Directors (“**INED**”), at least one of whom shall have appropriate professional qualifications or accounting or related financial management expertise, as required under Rule 3.10(2) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
- 1.3 The Audit Committee shall consist of not less than three members.
- 1.4 A former partner of the Company’s existing external auditor shall be prohibited from acting as a member of the Audit Committee for a period of two years commencing on the date of his/her ceasing:
  - (a) to be a partner of the firm; or
  - (b) to have any financial interest in the firm,whichever is the later.
- 1.5 The term of office of a member of the Audit Committee shall be determined by the Board.

1.6 Each member of the Audit Committee shall disclose to the Audit Committee:

- (a) any personal financial interest (other than as a shareholder of the Company (the “**Shareholders**”)) in any matter to be decided by the Audit Committee; and
- (b) any potential conflict of interest arising from a cross-directorship.

Any such member shall abstain from voting on resolutions of the Audit Committee in relation to which such interests exists and from participating in the discussions concerning such resolutions, and shall (if so required by the Board) resign from the Audit Committee.

1.7 Appointment of members of the Audit Committee may be revoked by the Board and should be automatically terminated if they cease to hold the office of the Director for any cause.

## **2. Chairman**

2.1 The chairman of the Audit Committee (the “**Chairman**”) shall be appointed by the Board and should be an INED. In the absence of the Chairman from any meeting, the remaining members of the Audit Committee present shall elect one of their members to be the Chairman, who shall also be an INED.

## **3. Secretary**

3.1 The company secretary of the Company shall be the secretary of the Audit Committee (the “**Secretary**”).

3.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the Secretary.

## **4. Quorum**

4.1 The quorum for meetings of the Audit Committee shall be any two members of the Audit Committee and a majority of which shall be the INEDs.

4.2 A duly convened meeting of the Audit Committee at which a quorum is present at the time when the meeting proceeds to business and continues to be present until the conclusion of the meeting shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.

## **5. Frequency of meetings**

- 5.1 The Audit Committee shall meet at least twice a year (the “**Regular Meeting**”) to review and discuss the interim and annual financial statements of the Company. Additional meetings shall be held at such other times as the Chairman or any other members of the Audit Committee shall require.
- 5.2 The external auditors may request the Chairman to convene a meeting if they consider that one is necessary.

## **6. Attendance at meetings**

- 6.1 Members of the Audit Committee may attend meetings of the Audit Committee either in person or through other electronic means of communication.
- 6.2 The finance director, the head of internal audit (if any), and a representative of the external auditors shall normally attend meetings along with the members of the Audit Committee upon invitation by the Audit Committee.
- 6.3 The Secretary (or his/her delegate) shall attend all Regular Meetings to take minutes.

## **7. Notice of meetings**

- 7.1 A meeting of the Audit Committee may be convened by any of its members, or by the Secretary at the request of any of its members or external auditors.
- 7.2 Reasonable notice shall be given, as far as practicable, in writing or by telephone or in such other manner as the Audit Committee may from time to time determine. Any member of the Audit Committee may waive notice of any meeting either prospectively and retrospectively.
- 7.3 In respect of a Regular Meeting and so far as practicable in all other cases, an agenda and accompanying supporting papers shall be sent to all members of the Audit Committee and to other attendees as appropriate at least three days before the date of the meeting (or such other period as all the members of the Audit Committee may agree).
- 7.4 Any member of the Audit Committee shall be entitled, by notice to the Secretary, to include other matters relevant to the functions of the Audit Committee in the agenda of an Audit Committee meeting.

7.5 A resolution in writing signed by all the members of the Audit Committee shall be as valid and effectual as if a resolution had been passed at a meeting of the Audit Committee duly convened and held.

## **8. Minutes of meetings**

8.1 The Secretary (or his/her delegate) in attendance at the meetings of the Audit Committee shall record in sufficient details the matters considered and decisions reached at such meetings. The minutes shall also include any concerns raised and/or dissenting views expressed by any member of the Audit Committee.

8.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant member of the Audit Committee shall not be counted towards the quorum and he/she shall abstain from voting on any resolution of the Audit Committee in which he/she or any of his/her associates has a material interest, unless the exceptions set out in Note 1 to Appendix 3 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) apply.

8.3 Minutes of the Audit Committee shall be kept by the Secretary and shall be available for inspection by any Directors at any reasonable time on reasonable notice.

8.4 Draft and final versions of minutes of Audit Committee meetings shall be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting is held. Once the minutes are signed, the Secretary shall circulate the minutes and reports of the Audit Committee to all members of the Board.

## **9. Annual general meeting**

9.1 The Chairman or in his/her absence, another member of the Audit Committee or failing this, his/her duly appointed delegate, shall attend the annual general meeting (the “**AGM**”) of the Company and be prepared to respond to questions at the AGM on the Audit Committee’s activities and its responsibilities.

## **10. Other regulations governing the meetings and proceedings of the Audit Committee**

10.1 Unless otherwise specified above, the provisions contained in the Company's Bye-laws for regulating meetings and proceedings of directors shall apply to the meetings and proceedings of the Audit Committee.

## **11. Authority**

11.1 The Audit Committee is authorised by the Board:

- (a) to investigate any activity within these terms of reference;
- (b) to seek any information it reasonably requires from any employee of the Company; and
- (c) to direct all employees of the Company to co-operate with any reasonable request made by the Audit Committee.

## **12. Duties**

The duties of the Audit Committee are as follows:-

12.1 Relationship with the Company's external auditors

- (a) to be primarily responsible for making recommendation 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 to consider any questions of 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 auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standards;
- (d) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (e) to ensure co-ordination where more than one audit firm is involved;

- (f) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee shall 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; and
- (g) to approve in advance the supply of any non-audit services by the external auditor by (a) considering the impact this may have on independence; (b) taking into account the relevant regulations and ethical guidance in this regard; (c) agreeing the terms of engagement and (d) the fees for any such services; and report to the Board on any improvement or action required.

## 12.2 Review of financial information of the Company

- (a) to monitor integrity of financial statements of the Company and the Company's 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 this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee shall 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 qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

- (b) in regard to 12.2(a) above:-
  - (i) members of the Audit Committee shall liaise with the Board and senior management<sup>1</sup> and the Audit Committee shall meet not less than twice a year with the Company's external auditors; and
  - (ii) the Audit 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 staff responsible for the accounting and financial reporting function, compliance officer or external auditors;
- (c) to discuss problems and reservations arising from the interim and final audits and any matters the external auditors may wish to discuss (in the absence of the management where necessary); and
- (d) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board.

### 12.3 Oversight of the Company's financial reporting system, risk management and internal control systems

- (a) to review the Company's financial controls, risk management and internal control systems;
- (b) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (c) to consider any major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response;
- (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 the effectiveness of the internal audit function;

- (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 external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (g) 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 Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (h) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (i) to report to the Board on the matters set out herein and, in particular, the matters required to be performed by the Audit Committee under the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules; and
- (j) to consider other topics, as defined by the Board.

12.4 The Audit Committee shall establish a whistleblowing policy and system.

### **13. Reporting Responsibilities**

13.1 Where the Board disagrees with the Audit Committee's views on the selection, appointment, resignation or dismissal of the external auditors, the Audit 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 has taken a different view.

13.2 The Audit Committee shall compile a report to shareholders on its role and work performed by it during the year in discharging its responsibilities in its review of the quarterly (if relevant), half-yearly and annual results and system of internal control, and its other duties set out in the Code, for inclusion in the Company's Corporate Governance Report.

13.3 The Audit Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).



## **14. Others**

- 14.1 The Audit Committee shall be provided with sufficient resources to perform and discharge its duties.
- 14.2 All members of the Audit Committee shall have access to the advice and services of the Secretary with a view to ensure that procedures of the Audit Committee and all applicable law, rules and regulations are followed.
- 14.3 In the event that the Audit Committee or any member of the Audit Committee requires access to outside independent professional advice in connection with its/his/her duties, a request may be made to the Board through the Secretary. All such requests shall be processed in accordance with the pre-defined procedures of the Company for seeking independent professional advice at the expense of the Company.
- 14.4 Every member of the Audit Committee shall ensure that he/she can give sufficient time and attention to his/her duties as a member of the Audit Committee. He/she shall give the Company the benefit of his/her skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.
- 14.5 The Audit Committee and each of its members shall have separate and independent access to the Company's senior management<sup>1</sup>.

## **15. Publication of the terms of reference of the Audit Committee**

- 15.1 These terms of reference of the Audit Committee shall be posted on the websites of the Company and on the website of the Stock Exchange of Hong Kong Limited, and shall be made available upon request.

## 16. Review of the terms of reference of the Audit Committee

16.1 The Board may, subject to compliance with the Bye-laws of the Company and the Listing Rules (including the Corporate Governance Code set out in Appendix 14 to the Listing Rules or if adopted by the Company, the Company's own code of corporate governance practices), amend, supplement and revoke these terms of reference and any resolution passed by the Audit Committee provided that no amendments or supplements to and revocation 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 terms of reference or resolution had not been amended, supplemented or revoked.

16.2 The Audit Committee shall review these terms of reference annually and may consider and submit to the Board any proposed changes that the Audit Committee deems appropriate or advisable.

### *Notes:*

1. “**senior management**” shall refer to the same category of persons as referred to in the Company's annual report and is required to be disclosed under paragraph 12 of Appendix 16 to the Listing Rules.

*Note: In case of discrepancies or inconsistencies between the English version and the Chinese version of this terms of reference, the English version shall prevail.*

\* *For identification purposes only.*