

HAILIANG 海亮
HAILIANG INTERNATIONAL HOLDINGS LIMITED
海亮國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(the “Company”)
(Stock Code: 2336)

AUDIT COMMITTEE
TERMS OF REFERENCE

(Revised version: January 2019)

1. Constitution

- 1.1 The Board of Directors of the Company (the “Board”) had resolved to establish a committee of the Board, namely, the audit committee (the “Committee”) for the purposes of, inter alia, reviewing the effectiveness of the financial reporting process, risk management and internal controls of the Company and its subsidiaries (collectively the “Group”) and maintaining an appropriate relationship with the Company’s auditors.
- 1.2 The Committee is to reconstitute from time to time in order to fully comply with the new requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of which shall be independent non-executive directors.
- 2.2 The chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.
- 2.3 At least one of the members of the Committee shall have appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
- 2.4 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 two years 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.

3. Quorum

The quorum necessary for the transaction of business of the Committee shall be two members of the Committee, one of whom must be an independent non-executive director.

4. Attendance at meetings

4.1 The financial controller and other financial officers (if any), the head of internal audit (if any), and a representative of the external auditors shall normally attend meetings of the Committee. However, at least once a year the Committee shall meet with the external and internal auditors without executive directors of the Company present.

4.2 The Company Secretary of the Company shall be the secretary of the Committee. In the absence of the Company Secretary in any meeting of the Committee, a member of the Committee to be nominated by the other members of the Committee shall act as the secretary of that meeting.

5. Frequency of meetings

Meetings shall be held not less than twice a year and the Committee shall meet with the Company's auditors at least twice a year. The external auditors or any members of the Committee may request a meeting if they consider necessary.

6. Arrangement for and notice of meetings

6.1 All meetings of the Committee will be called by the secretary or the chairman of the Committee or any person(s) as instructed by the chairman of the Committee, or at the request of the Board.

6.2 Notices of at least 14 days shall be given to all members of the Committee for regular meetings of the Committee. For all other meetings, reasonable notices shall be given.

6.3 If any member of the Committee wishes to include any matter in the agenda for a particular regular meeting of the Committee after the issue of the notice of such meeting, he or she may notify the secretary of the Committee the proposed matter(s) in writing within seven days after the notice of the regular meeting is given.

7. Proceedings of meetings

Unless otherwise specifically provided for in this terms of reference, all of the provisions of the Articles of Association of the Company regulating meetings and proceedings of the Board shall, mutatis mutandis, govern the meetings and proceedings of the Committee.

8. Authority

- 8.1 The Committee is authorised by the Board to investigate any activity within its terms of reference, and the executive directors of the Company shall ensure that members of the Committee are provided with full and unlimited access to all books and accounts of the Company. It is authorised to seek any information it requires from any employees, directors, consultants and advisers of the Company and all employees, directors, consultants and advisers are directed to comply with any reasonable requests of the Committee.
- 8.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise at its meetings if it considers this necessary.
- 8.3 The Committee should be provided with sufficient resources to discharge its duties.

9. Duties

The duties of the Committee shall include the following:

Relationship with the Company's auditors

- 9.1 to be primarily responsible for making recommendations 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 any questions of its resignation or dismissal;
- 9.2 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;
- 9.3 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;
- 9.4 to act as the key representative body for overseeing the Company's relations with the external auditor.

Review of the Company's financial information

9.5 to monitor integrity of the Company's financial statements, 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:

- (a) any changes in accounting policies and practices;
- (b) major judgmental areas;
- (c) significant adjustments resulting from audit;
- (d) the going concern assumptions and any qualifications;
- (e) compliance with accounting standards; and
- (f) compliance with the Listing Rules and legal requirements in relation to financial reporting.

9.6 Regarding 9.5 above:

- (a) 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 auditors; and
- (b) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the financial statements, reports 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.

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

9.7 to review the Company's financial controls, and to review the Company's risk management and internal control systems;

9.8 to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function;

- 9.9 to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 9.10 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;
- 9.11 to review the Group's financial and accounting policies and practices;
- 9.12 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;
- 9.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 9.14 to review arrangements for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 9.15 to report to the Board on the matters in this terms of reference; and
- 9.16 to consider other topics, as defined by the Board.

10. Corporate Governance delegated by the Board

To ensure the uphold of good corporate governance including, but not limited to:

- 10.1 to develop and review the policies and practices of the Company on corporate governance and make recommendations to the Board;
- 10.2 to review and monitor the training and continuous professional development of directors and senior management of the Company;
- 10.3 to review and monitor the policies and practices of the Company on compliance with legal and regulatory requirements;
- 10.4 to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the directors and employees of the Company; and
- 10.5 to review the compliance by the Company with the Corporate Governance Code (Appendix 14 to the Listing Rules) and the disclosure requirements for the Corporate Governance Report.

11. Reporting procedures

Full minutes of the Committee's meetings should be kept by the secretary. The secretary shall send the draft and final versions of minutes of the Committee meetings to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. Thereafter, the secretary shall circulate the minutes of meetings of the Committee to all members of the Board.

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.