



HENGDELI HOLDINGS LIMITED

亨得利控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3389)

Terms of reference of the Audit Committee

The Audit Committee

1. The board of directors (the “**Board**”) of Hengdeli Holdings Limited (the “**Company**”) established a committee of the Board known as the Audit Committee (the “**Audit Committee**”), its constitution and particular duties are set out below:-

Membership

2. The members of the Audit Committee shall be appointed by the Board. The Audit Committee shall comprise non-executive directors only. The Audit Committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with 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 majority of the Audit Committee members must be independent non-executive directors of the Company. The Audit Committee must be chaired by an independent non-executive director. A quorum of a meeting of the Committee shall be two members.
3. A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing:
 - (a) to be a partner of the auditing firm; or
 - (b) to have any financial interest in the auditing firm, whichever is later.
4. The company secretary of the Company shall be the secretary of the Audit Committee.

Frequency of meetings

5. Meetings of the Audit Committee 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 may request a meeting if they consider that one is necessary.
6. The Finance Director, the Head of Internal Audit, and a representative of the external auditors shall normally attend meetings. However, at least once a year the Audit Committee shall meet with the external and internal auditors without executive Board members present.

Authorities and Duties

7. The Audit Committee is authorised by the Board and its duties shall include the followings:-

Relationship with the Company's auditors

- (a) 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;
- (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 Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to approve the engagement of the external auditor to perform non-audit services and to develop and implement policy on engaging an external auditor to supply non-audit services. It is in general prohibited to engage the external auditor for non-audit services except for tax-related 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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

- (d) to monitor integrity of the Company's 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 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 of the Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (e) Regarding (d) above:-
 - (i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Audit 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 Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Company's financial reporting system and internal control procedures

- (f) to review the Company's financial controls, internal control and risk management systems;

- (g) 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;
- (h) 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;
- (i) 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;
- (j) to review the group's financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters in Clause C.3 of Corporate Governance Code of The Hong Kong Exchanges and Clearing Limited; and
- (n) to consider other topics, as defined by the Board.

8. Further, the Audit Committee is authorised:

- (a) to investigate any activity within its terms of reference;
- (b) to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee;
- (c) 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 should ensure that proper arrangements are in place for fair and independent investigation of these

matters and for appropriate follow-up action;

- (d) to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
 - (e) to act as the key representative body for overseeing the Company's relations with the external auditor.
9. The Board will ensure the Company to provide the Audit Committee sufficient resources to perform its duties.
10. Where the board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Audit Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Audit Committee's view and the reasons why the board has taken a different view.

Reporting procedures

11. Full minutes of Audit Committee meetings shall be kept by the duly appointed secretary of the relevant meeting. Draft and final versions of minutes of the meetings shall be sent to all committee members for their comment and records within 14 days after the conclusion of the relevant meeting of the Audit Committee.