



# SHUN CHEONG HOLDINGS LIMITED

## 順昌集團有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 650)**

### **Terms of Reference for Audit Committee**

#### **Principal**

1. The board (the “Board”) of directors of Shun Cheong Holdings Limited (the “Company”) should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company’s auditors. The audit committee (the “Committee”) established under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) should have clear terms of reference.

#### **Membership**

2. The Committee shall consist of not less than three members appointed by the Board, all of whom shall be non-executive directors and a majority of whom shall be independent non-executive directors under the Listing Rules.
3. The chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.
4. The company secretary of the Company shall act as the secretary of the Committee (the “Secretary”).

#### **Frequency and proceedings of meetings**

5. The Committee should meet at least twice a year. Additional meetings should be held as the work of the Committee demands.
6. In addition, the chairman of the Committee may convene additional meetings at his discretion.
7. The quorum for a meeting shall be two members.
8. Proceedings of meetings of the Committee shall be governed by the provisions of Bye-law 118 of the Bye-laws of the Company.

\* *For identification purpose only*

## **Authority**

9. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee.
10. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## **Responsibility**

11. The Committee is to serve as a focal point for communication between, other directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other matters as the Board determines from time to time.
12. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the risk management and internal controls of the Company and its subsidiaries (the “Group”), and as to the adequacy of the external and internal audits.

## **Duties, powers and functions**

13. The Committee is to:
  - (a) consider the appointment of the external auditors, the performance of the external auditors, the audit fee, and any questions of resignation or dismissal;
  - (b) review with the Group’s management, external auditors and internal auditors (if appointed), the adequacy of the Group’s policies and procedures regarding risk management and internal controls (including financial, operational and compliance controls) and any statement by the directors to be included in the annual accounts prior to endorsement by the Board;
  - (c) have familiarity with the financial reporting principles and practices applied by the Group in preparing its financial statements;
  - (d) prior to its commencement, review the scope of the external audit, including the engagement letter. The Committee should understand the factors considered by the external auditors in determining their audit scope. The external auditors’ fees is to be negotiated by management, and presented to the Committee for review and approval annually;
  - (e) monitor the integrity of the Company’s financial statements and annual and interim financial reports and to review significant financial reporting judgments contained in them. In reviewing these reports prior to 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 the audit;
- (iv) the going concern assumption and any qualifications;
- (v) compliance with accounting and auditing standards; and
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

Regarding (e) 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 external auditors; 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 Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (f) oversight of the Group's financial reporting system, risk management and internal control systems:
- (i) to review the Group's financial controls, and unless expressly addressed by a separate Board's risk committee, or by the Board itself, to review the Group's risk management and internal control systems;
  - (ii) 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 Group's accounting and financial reporting function;
  - (iii) 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;
- (g) evaluate the cooperation received by the external auditors, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditors to the Group's needs; inquire of the external auditors as to whether there have been any disagreements with management which is not satisfactorily resolved would result in the issue of a qualified report on the Group's financial statements;
- (h) seek from the external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;

- (i) discuss with the external auditors any recommendations arising from the audit (if necessary in the absence of management); and review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (j) ensure that the Board will provide a timely response to issues raised in the external auditors' management letter;
- (k) review the scope and results of internal audit procedures, ensure coordination between the internal auditors (if appointed) and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and monitor its effectiveness;
- (l) review the Group's financial and accounting policy and practices;
- (m) the engagement of the external auditors to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditors due to their unique expertise in a particular area, the prior approval of the Committee is required;
- (n) apprise the Board of significant developments in the course of performing the above duties;
- (o) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (p) review the findings of internal investigations into any suspected frauds or irregularities or failures of the risk management system, internal controls or infringements of laws, rules and regulations;
- (q) agree with the Board the Company's policy relating to the hiring of employees or former employees of the external auditors and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditors' judgment or independence in respect of an audit;
- (r) review arrangements by which employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such concerns and for appropriate follow-up action;
- (s) act as the key representative body for overseeing the Company's relations with the external auditors;
- (t) report to the Board on the matters in these terms of reference; and
- (u) consider other topics, as requested by the Board.

## **Reporting Procedures**

14. The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report to the Board on the findings and recommendations of the Committee.
15. The Secretary shall circulate the minutes of meeting and reports of the Committee to all members of the Board.