

# **YUGANG**

## **YUGANG INTERNATIONAL LIMITED**

### **(渝港國際有限公司)\***

*(Incorporated in Bermuda with limited liability)*

*(the "Company")*

*(Stock code : 00613)*

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#### **Terms of Reference**

**Of**

#### **Audit Committee**

(adopted to take effect as of 1<sup>st</sup> January 2016

by a resolution of the Board passed on 3<sup>rd</sup> December 2015)

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#### **Constitution**

1. A committee of the board known as the audit committee (the "**Committee**") was established by the board (the "**Board**") of directors of the Company (the "**Directors**") pursuant to a Board resolution passed on 30<sup>th</sup> June 2005. In compliance with amendments to the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") which will apply to accounting periods beginning on or after 1<sup>st</sup> January 2016, the Board has adopted the following terms of reference of the Committee ("**Terms of Reference**") by a resolution of the Board passed on 3<sup>rd</sup> December 2015 and the Terms of Reference will also take effect on 1<sup>st</sup> January 2016.

#### **Membership**

2. The Committee members shall be appointed by the Board amongst the non-executive Directors and shall consist of not less than three members, a majority of whom should be independent non-executive Directors, at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise.
3. 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 one year 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;
4. The chairman of the Committee shall be appointed by the Board and should be an independent non-executive Director.

## **Quorum**

5. The quorum shall be two members.
6. Members may participate in any Committee meeting by means of a conference telephone, electronic or other communication equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.

## **Attendance at meetings**

7. Attendees shall normally include Committee members, Managing Director, financial controller or other financial officers, the head of internal audit (where an internal audit function exists), and those with meaningful input to the Committee's activities. The external auditor may be invited to attend meetings. In addition to the aforesaid, the Committee may, from time to time, invite any person it deems appropriate to attend the meeting. Each other Board member should also have the right of attendance.
8. The company secretary of the Company shall be the secretary of the Committee. However, if the company secretary is not able to attend the meeting, he/she may appoint a person as his/her alternate to attend the meeting and perform his/her duties thereat.
9. The Committee should meet with the external auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditors may wish to raise.

## **Frequency of meetings**

10. Meetings shall be held not less than twice a year, with the Company's external auditor. Special meetings may be convened as required. The external auditor may also request a meeting if they consider that one is necessary.

## **Voting**

11. Resolutions of the Committee at any meetings shall be passed by a majority of votes of the members present.

## **Resolutions**

12. A resolution in writing signed by all members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held. Any such resolution may be contained in a single document or may consist of several documents all in like form.
13. The Secretary should keep full minutes of the Committee meetings. Draft and final versions of minutes of the Committee meetings should be sent to all Committee members for their comments and records within a reasonable time after each meeting.

## **Authority**

14. The Committee is to be provided with sufficient resources to perform its duties.
15. The Committee is authorised by the Board to investigate any activity within its terms of reference.
16. In connection with its duties, the Committee is authorised by the Board to seek information from employees or Directors of the Company in order to perform its duties within its terms of reference.
17. In connection with its duties, the Committee is authorised by the Board to obtain outside legal or other independent professional advice on any matters within its terms of reference, and/or to secure the attendance of outsiders with relevant experience and expertise if it considers necessary. The related professional fees shall be borne by the Company.
18. In seeking independent professional advice or securing the attendance of outsiders with relevant experience and expertise, the Committee shall consult the chairman of the Board in advance and provide the Board with the best estimate of the related fees and expenses prior to any such appointment or engagement.
19. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reasons why the Board has taken a different view.

## **Duties**

20. The duties of the Committee shall be:-

### *20.1 External Audit*

- 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 Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- c) 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;

### *20.2 Review of Financial Information*

- a) 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: -
  - (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 legal requirements in relation to financial reporting;
- b) Regarding (a) 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 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 Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

### 20.3 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 effective systems. 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;
- c) 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;
- 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 its effectiveness;
- 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 about accounting records, financial accounts or systems of control and management's response;

- g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- h) to review arrangements by which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- i) to act as the key representative body for overseeing the Company's relations with the external auditor;
- j) to report to the Board on the matters set out above; and
- k) to consider other topics, as defined by the Board.

### **Reporting procedures**

- 21. The secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

### **Communication**

- 22. The Chairman or in the absence of the Chairman, another member of the Committee or failing this his duly appointed delegate, should attend the Company's annual general meeting to answer any questions that may be raised thereat on the Committee's activities and responsibilities.

### **Publication of These Terms of Reference**

- 23. A copy of these terms of reference will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company.

\* For identification purpose only