

# **Chevalier International Holdings Limited**

## **Terms of Reference of the Audit Committee**

### **1. Constitution**

- 1.1 The Board of Directors (the “Board”) of Chevalier International Holdings Limited (the “Company”) established a committee of the Board known as the Audit Committee (the “Committee”) on 29 December 1998.
- 1.2 Effective date of these terms of reference: Adopted by the Board on 28 November 2017.

### **2. Membership**

- 2.1 The members of the Committee shall be from time to time appointed by the Board and shall comprise a minimum of 3 Non-Executive Directors. The majority of the members of the Committee shall be Independent Non-Executive Directors, at least one of whom has to be 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 “Listing Rules”).
- 2.2 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 1 year from 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 later.

### **3. Chairman**

- 3.1 The Chairman of the Committee shall be a member of the Committee appointed by the Board and be an Independent Non-Executive Director.
- 3.2 The Chairman of the Committee shall chair the meetings of the Committee.
- 3.3 In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present at the meeting shall elect one amongst themselves to chair the meeting of the Committee.

### **4. Secretary**

- 4.1 The Company Secretary or any other person invited by the Committee shall act as the Secretary of the Committee to take minutes. In the absence of the Secretary of the Committee, the members present at the meeting of the Committee shall elect another person as the Secretary.

## **5. Quorum and Resolutions**

- 5.1 The quorum necessary for the transaction of business shall be any two members and:
- a. If only two members are in attendance, at least one member shall be an Independent Non-Executive Director; and
  - b. If more than two members are in attendance, then a majority of the members shall be Independent Non-Executive Directors.
- 5.2 A member participating in a Committee meeting through electronic communications device shall be counted for the purpose of the quorum as far as the member is able:
- a. To hear each of the other participating member(s) addressing the meeting; and
  - b. If he so wishes, to address all of the other participating member(s) simultaneously.
- 5.3 The Secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The member or any of his/her close associates who has a material interest shall not be counted towards the quorum and he must abstain from voting on any resolution of the Committee in which he/she and/or his/her close associates have a material interest.
- 5.4 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 5.5 Each resolution at a meeting of the Committee shall be determined by a majority of votes of the Committee members present. In case of an equality of votes, the Chairman of the meeting shall have a casting vote.

## **6. Frequency of Meetings**

- 6.1 Meetings shall be held not less than twice a year with the auditor of the Company and at such other times as the Chairman of the Committee shall require.
- 6.2 Any member of the Committee or the external auditors may request a meeting if they consider one is necessary. The request shall be made to the Secretary of the Committee.

## **7. Attendance at and Attendees of Meetings**

- 7.1 Members of the Committee may attend meetings of the Committee either in person or through electronic means of communication.
- 7.2 Should any member of the Committee wish to attend a meeting through electronic communications, prior arrangements shall be made with the Secretary of the Committee.
- 7.3 Other than members of the Committee, the Group Chief Financial Officer, the Head of Internal Audit and/or his/her delegate(s), and representative(s) of the external auditors may be invited to attend meetings. Other Board members shall also have the right of attendance. But they cannot vote or be counted towards the quorum for any matter to be resolved by the Committee.

## **8. Notice of Meetings**

- 8.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.
- 8.2 Unless otherwise agreed, notice of each meeting confirming the venue, date and time shall be forwarded to each member of the Committee, and to any other person required to attend:
  - a. In relation to all regular meetings of the Committee, at least 3 business days before the date of the meetings; and
  - b. In relation to all other meetings of the Committee, within a reasonable time prior to the date of the meeting.
- 8.3 Supporting papers of meetings shall be sent to Committee members and to other attendees, as appropriate, within a reasonable time before the holding of the meeting.
- 8.4 Each member of the Committee shall be entitled, by notice to the Secretary of the Committee, to include other matters relevant to the functions of the Committee in the agenda of the Committee meeting.

## **9. Minutes of Meetings**

- 9.1 The Secretary of the Committee (or his/her delegate) attending the meetings of the Committee shall minute in sufficient detail the proceedings and resolutions of all such meetings. The minutes should also include any concerns raised by any member of the Committee and/or dissenting views expressed.
- 9.2 Draft minutes of each meeting shall be sent to the Committee members present at the meeting for comments within a reasonable time after the meeting.
- 9.3 A final version of the minutes of each meeting shall be sent to the Committee members present at the meeting for signature and shall be copied to each other member absent from the meeting for reference, attention and/or follow up.
- 9.4 Minutes of the meetings shall be kept by the Secretary of the Committee and shall be available for inspection by any member of the Committee or Director at any reasonable time on reasonable notice.

## **10. Annual General Meeting**

- 10.1 The Chairman or in his absence, another member of the Committee, or failing this his duly appointed delegate shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## 11. Duties, Powers and Functions

### 11.1 The duties of the Committee shall be:

- a. to make recommendations to the Board on the appointment, re-appointment 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 standard;
- c. to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;
- d. 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;
- e. to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- f. to monitor integrity of the Company's financial statements and annual report and accounts, interim report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, focusing particularly on:
  - i. any changes in accounting policies and practices;
  - ii. major judgmental areas;
  - iii. significant adjustments resulting from audit;
  - iv. the going concern assumption and any qualifications;
  - v. compliance with accounting standards; and
  - vi. compliance with the Listing Rules and legal requirements in relation to financial reporting;
- g. regarding (f) above, (i) to liaise with the Board and senior management and must meet, at least twice a year, with the Company's auditors; and (ii) to 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 (if any) or auditors;

- h. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
  - i. 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 and to ensure that the Board provide a timely response to the issues raised;
  - j. to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
  - k. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
  - l. 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;
  - m. 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;
  - n. to review the group's financial and accounting policies and practices;
  - o. 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 and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
  - p. to act as the key representative body for overseeing the Company's relations with the external auditor;
  - q. to report to the Board on the matters in the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules; and
  - r. to consider other topics as defined by the Board.
- 11.2 The Committee should be provided with sufficient resources to perform its duties. Where necessary, the Committee should seek independent professional advice at the Company's expenses, to perform its responsibilities.

- 11.3 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it reasonably requires from any employee and all employees are directed to co-operate with any reasonably request made by the Committee.
- 11.4 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 if it considers this necessary.

## **12. Reporting Responsibilities**

- 12.1 The Committee shall report to the Board on a regular basis. At the next Board meeting following a Committee's meeting, the Committee's Chairman shall report the Committee's findings and recommendations to the Board.
- 12.2 The Committee shall make recommendations to the Board that it deems appropriate on any area within its remit where action or improvement is needed.
- 12.3 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

## **13. Frequency of Review**

- 13.1 This Terms of Reference should be reviewed on a continuous basis and when necessary, can be revised by the Board from time to time.

## **14. Disclosure and Publication**

- 14.1 The terms of reference will be posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.