



ZH INTERNATIONAL HOLDINGS LIMITED

正恒國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 185)

("Company")

Terms of reference of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of the Company

(amended and restated with effect from 1 January, 2016)

1. Introduction

- 1.1 Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), every issuer is required to establish an audit committee comprising non-executive directors only. The board of directors of the issuer must approve and provide written terms of reference for the audit committee which clearly establish the committee's authority and duties.

2. Appointment and composition

- 2.1 **Appointment and revocation:** Members of the Committee shall be appointed and removed by the Board. An appointment of Committee member shall be automatically revoked if such member ceases to be a member of the Board.

2.2 Composition:

Members of the Committee shall:

- (1) be appointed from amongst the non-executive directors of the Company (including independent non-executive directors of the Company) only;
- (2) consist of not less than three in number, a majority of whom should be independent non-executive directors of the Company;
- (3) consist of at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in **Rule 3.10(2)** of the Listing Rules; and

- (4) not be a former partner of the Company's existing auditing firm who had ceased as a partner of that firm or to have any financial interest in that firm, whichever is the later, for a period of less than one (1) year.

2.3 **Chairman of the Committee:** The Chairman of the Committee shall be appointed by the Board or elected among the members of the Committee and shall be an independent non-executive director.

2.4 **Secretary of the Committee:** The company secretary of the Company shall be the secretary of the Committee. In the absence of the secretary of the Committee, Committee members present at the meeting may elect among themselves or appoint another person as the secretary for that meeting.

3. Proceedings of the Committee

3.1 *Convening of meetings:*

A Committee member may and, on the request of a Committee member, the secretary to the Committee shall, at any time summon a Committee meeting. The external auditors may request the Chairman of the Committee to convene a meeting, if they consider that one is necessary.

3.2 *Notice:*

- (1) Unless otherwise agreed by all the Committee members (either orally or in writing), a meeting shall be called by at least fourteen days' notice. Irrespective of the length of notice being given, attendance of a Committee member at a meeting constitutes a waiver of such notice unless the Committee member attending the meeting attends for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the grounds that the meeting has not been properly convened.
- (2) Notice of meeting shall be given to each Committee member, and to any other person invited to attend, in person orally or in writing or by telephone or by email or by facsimile transmission at the telephone or facsimile or address or email address last notified to the secretary of the Committee by such Committee member or in such other manner as the Committee members may from time to time determine.
- (3) Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.
- (4) Notice of meeting shall state the purpose, time and venue of the meeting.
- (5) In respect of regular meetings of the Committee as mentioned in paragraph 3.5 below, and as far as practicable for all other meetings of the Committee, an agenda together with the documents which may be required to be considered by the members of the Committee for the purposes of the meeting shall be sent in full to all members of the Committee in a timely manner and in any event **not less than 3 days** before the intended date of the meeting of the Committee (or such other period as all the Committee members may agree).

3.3 **Quorum:** The quorum of the Committee meeting shall be two members of the Committee.

3.4 ***Attendance:***

- (1) The Company's staff having accounting and financial reporting functions, the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation) and representative(s) of the external auditors shall normally attend meetings of the Committee. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without the presence of members of the Executive Board and the management of the Company.
- (2) Meetings may be held in person, or by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.

3.5 ***Frequency:*** Regular meetings of the Committee shall be held with the external auditors at least twice annually or more frequently if circumstances require. Where appropriate, meetings should be held on such dates which would coincide with the key dates in the Company's financial reporting cycle.

3.6 ***Vote:***

- (1) A member of the Committee must abstain from voting on any resolution of the Committee in which he or any of his close associates (as defined in the Listing Rules) has a material interest and shall not be counted towards the quorum of such a meeting at which the relevant resolution is considered by the Committee, unless the exceptions set out in the articles of association of the Company or note 1 to Appendix 3 to the Listing Rules apply.
- (2) Resolutions of the Committee shall be passed by a majority of votes of members of the Committee who are entitled to attend and vote at the meeting. Where the number of votes for and against a resolution is the same, the Chairman of the Committee shall be entitled to cast an extra vote.

4. **Written resolutions**

4.1 A resolution in writing signed by all the Committee members shall be as valid and effectual as if it had been passed at a meeting of the Committee and may consist of several documents in like form each signed by one or more of the Committee members.

5. **Alternate Committee members**

5.1 A Committee member may not appoint any person as his alternate.

6. **Authority of the Committee**

6.1 The Committee may at the costs of the Company exercise the following powers:

- (1) to seek any information it requires from any employee of the Company and its subsidiaries (hereinafter collectively referred to as "**Group**") and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;

- (2) to monitor whether the Group's management has, in the performance of their duties, infringed any policies from time to time set by the Board or any applicable laws, rules, regulations and codes (including the Listing Rules and other rules, regulations and codes from time to time determined by the Board or a committee thereof);
- (3) to investigate any matters within these terms of reference and all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
- (4) to review the Group's risk management and internal control procedures and system;
- (5) to review the performance of the Group's employees in the accounting department and internal audit department (if any);
- (6) to make recommendations to the Board for the improvement of the Group's internal control procedures and system;
- (7) to request the Board to convene a shareholders' meeting (if necessary) for purposes of revoking the appointment of any director and to dismiss any employees of the Group if there is evidence showing that the relevant director and/or employee has failed to discharge his duties properly;
- (8) to request the Board to take all necessary actions, including convening an extraordinary general meeting, to replace and dismiss the auditors of the Group;
- (9) to obtain outside independent legal or other professional advice on any matters within these terms of reference as it considers necessary and to secure the attendance of outsiders with relevant experience and expertise at its meetings, if it considers this necessary;
- (10) to commission reports or surveys as are necessary to assist in the performance of its duties;
- (11) to be provided with and to have access to sufficient resources in order to perform its duties;
- (12) where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, to explain the Committee's own recommendation on such matters in the form of a statement by the Committee, which statement together with the reasons why the Board has taken a different view shall be included in the corporate governance report of the Company;
- (13) to review annually these terms of reference and their effectiveness in the discharge of its duties and to make recommendation to the Board any changes it considers necessary; and
- (14) to exercise such powers as the Committee may consider necessary and expedient so that their duties under section 7 below can be properly discharged.

6.2 The Committee shall be provided with sufficient resources to perform its duties.

7. Duties of the Committee

7.1 The duties of the Committee shall be:

Relationship with the Company's auditors

- (1) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (2) 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;
- (3) 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 and ensure co-ordination where more than one audit firm is engaged before the audit commences;
- (4) 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;

Review of the Company's financial information

- (5) to monitor the 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 judgments contained in them;
- (6) in reviewing these reports (the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly report) 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 the audit;
 - (iv) the going concern assumption and any qualifications;
 - (v) compliance with accounting standards;
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

- (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;
- (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions;
- (ix) any significant or unusual items that are, or may need to be, reflected in such reports and accounts; and
- (x) the cashflow position of the Group;

and to provide advice and comments thereon to the Board;

(7) in regard to (5) and (6) above:

- (i) members of the Committee should liaise with the Board and senior management of the Group 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 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;

(8) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

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

(9) 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;

(10) to discuss the risk management and internal control system 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;

(11) 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;

(12) 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;

- (13) to review the Group's financial and accounting policies and practices;
- (14) 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;
- (15) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (16) to conduct exit interviews with any director, manager, financial controller or internal credit control manager upon their resignation in order to ascertain the reasons for his departure;
- (17) to prepare work reports for presentation to the Board and to prepare summary of work reports for inclusion in the Group's interim and annual reports;
- (18) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (19) to report back to the Board on any of the matters set out above as well as their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as restriction on disclosure due to regulatory requirements); and
- (20) to consider other matters, as defined or assigned by the Board from time to time.

8. Veto rights of the Committee

- 8.1 The Committee has the following veto rights. The Group cannot implement any of the following matters which has been vetoed by the Committee:
 - (1) to approve any connected transaction within the meaning of the Listing Rules which requires an independent shareholders' vote (unless the approval of such connected transaction is made conditional on the obtaining of the approval of the independent shareholders); and
 - (2) to employ or dismiss the Group's financial controller or the internal audit manager (or any officer(s) assuming the relevant functions but having a different designation).

9. Minutes and records

- 9.1 The secretary of the Committee shall, at the beginning of each meeting, ascertain and record the existence of any conflicts of interest and minute them accordingly.
- 9.2 Full minutes of the meetings of the Committee and all written resolutions of the Committee shall be kept by the secretary of the Committee.

- 9.3 The secretary of the Committee shall circulate the draft and final versions of minutes of the meetings of the Committee to all Committee members for their comment and records within a reasonable time after the meeting (generally, meaning within 14 days after the meeting). Once the minutes are properly signed, the secretary of the Committee shall circulate the minutes and reports of the Committee to all members of the Board.
- 9.4 The secretary of the Committee shall keep record of all meetings of the Committee held during each financial year of the Company and records of individual attendance of members of the Committee, on a named basis, at meetings held during that financial year.

10. Annual general meeting

- 10.1 The chairman of the Committee or in his absence, another member of the Committee, shall attend the annual general meeting of the Company to answer questions at the annual general meeting on the Committee's activities and their responsibilities.
- 10.2 The Company's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

11. Continuing application of the articles of association of the Company

- 11.1 The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

12. Powers of the Board

- 12.1 The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Corporate Governance Code set out in Appendix 14 to the Listing Rules or if adopted by the Company, the Company's own code of corporate governance practices), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

13. Publication of the terms of reference of the Committee

- 13.1 The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the website of the Company and on the website of the Stock Exchange of Hong Kong Limited.

Note: If there is any inconsistency between the English and Chinese versions of this document, the English version shall prevail.