

# Terms of Reference for the Audit Committee of Cheshi Holdings Limited

*(incorporated in the Cayman Islands with limited liability)*

**(the “Company”)**  
**(Stock Code: 1490)**

## DEFINITIONS

1. For the purposes of these terms of reference (the “**Terms**”):

<b>“Audit Committee”</b>	means the audit committee from time to time established by resolution of the Board in accordance with Article 137 of the articles of association of the Company (the “ <b>Articles of Association</b> ”) and clause 2 of these Terms
<b>“Board”</b>	means the board of Directors
<b>“Corporate Governance Code”</b>	means the Corporate Governance Code in Appendix 14 to the Listing Rules (as amended from time to time)
<b>“Director(s)”</b>	means the director(s) of the Company
<b>“Group”</b>	means the Company and its subsidiaries from time to time
<b>“Joint Company Secretary”</b>	means any one of the Joint Company Secretaries of the Company as appointed from time to time
<b>“Listing Rules”</b>	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
<b>“Senior Management”</b>	means the chairman, chief executive officer, and any other officers of the Company appointed by the Board from time to time
<b>“Shareholder(s)”</b>	means the shareholder(s) of the Company from time to time
<b>“Stock Exchange”</b>	means The Stock Exchange of Hong Kong Limited

## CONSTITUTION

2. The Board hereby resolves to establish a committee of the Board to be known as the Audit Committee.

## **SECRETARY OF THE AUDIT COMMITTEE**

3. The Joint Company Secretary shall be the secretary of the Audit Committee. The Joint Company Secretary or, in his/her absence, his/her delegate(s) or any person elected by the members present at the meeting of the Audit Committee, shall attend the meeting of the Audit Committee and take minutes.
4. The Audit Committee may appoint from time to time a secretary with other appropriate qualifications and experiences.

## **MEMBERSHIP**

5. The members of the Audit Committee shall be appointed by the Board from time to time and shall consist of non-executive Directors only and at least one of whom should be an independent non-executive Director with the appropriate professional qualifications or accounting or related financial management expertise as required by the Listing Rules.
6. The majority of the Audit Committee members must be independent non-executive Directors.
7. A quorum of the Audit Committee shall be two members.
8. The chairman of the Audit Committee shall be appointed by the Board and shall be an independent non-executive Director.
9. Each member of the Audit Committee shall disclose to the Audit Committee the following:
  - (a) any and all personal financial interests (other than as Shareholder of the Company) in any Company matter related to any matter under consideration by the Audit Committee; and
  - (b) any potential conflict of interest arising from a cross-directorship or otherwise,and the secretary of the Audit Committee meeting shall also ascertain, at the beginning of the meeting, the existence of any conflict of interest and minute them accordingly.
10. Any member with any personal financial interest in any Company matter related to any matter under consideration by the Audit Committee or any potential conflict of interest howsoever arising, shall abstain from voting on resolutions of the Audit Committee in relation to which such interest or conflict of interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) shall resign from the Audit Committee.

11. 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 two year commencing on 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 the later.

## **MEETINGS**

12. Unless otherwise specified hereunder, the provisions contained in the Articles of Association (as amended from time to time) for regulating proceedings of Directors' meetings shall apply to the meetings of the Audit Committee.
13. Meetings of the Audit Committee shall be held at least twice annually.
14. The chairman of the Audit Committee shall convene a meeting upon written request of any member of the Audit Committee.
15. A duly convened meeting of the Audit 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 Audit Committee.
16. Unless otherwise agreed by all the members of the Audit Committee, notice of at least 14 days shall be given for any meeting of the Audit Committee. Agenda and accompanying supporting papers shall be sent to all members of the Audit Committee and to other attendees as appropriate at least three days before the date of the meeting (or such other period as the members may agree).
17. Members of the Audit Committee may participate in any meeting of the Audit Committee by means of a conference telephone or other communications 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.
18. The head of internal audit of the Company (if any) shall attend Audit Committee meetings.
19. The Audit Committee shall invite the external auditors to attend meetings as it considers necessary.
20. The Audit Committee shall meet with the external auditors (if any) annually without the executive Directors present.

## **WRITTEN RESOLUTIONS**

21. Without prejudice to any requirement under the Listing Rules, written resolution may be passed and adopted by all members of the Audit Committee.

## **ANNUAL GENERAL MEETINGS**

22. The chairman of the Audit Committee shall attend the annual general meeting of the Company and be prepared to respond to any questions posed therein on the activities or decisions of the Audit Committee.

## **AUTHORITY**

23. The Audit Committee is authorised by the Board to discharge its duties within these Terms.
24. The Audit Committee is authorised by the Board to seek any information it requires from the Directors and/or Senior Management. Each of the Directors and/or Senior Management must cooperate with the Audit Committee.
25. The Audit Committee is authorised by the Board to obtain, at the expense of the Company, external independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if and when it considers necessary.
26. The Audit Committee shall be provided with sufficient resources to perform its duties.
27. The Audit Committee is authorised by the Board to have responsibility for establishing the selection criteria, selection, appointment and setting of the terms of reference for any external remuneration consultant retained to advise the Audit Committee.

## **DUTIES**

28. The responsibilities and authorities of the Audit Committee shall include such responsibilities and authorities set out in the relevant code provisions of the Corporate Governance Code, which shall include:

### ***Relationship with the Company's external auditors***

- (a) acting as the key representative body for overseeing the Company's relations with the external auditor;
- (b) making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- (c) approving the remuneration and terms of engagement of the external auditor;
- (d) considering any questions relating to the resignation or dismissal of the external auditor;

- (e) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (f) discussing with the auditor the nature and scope of the audit and reporting obligations before the audit commences, and ensuring coordination where more than one audit firm is involved;
- (g) developing and implementing policies on engaging an external auditor to supply non-audit services and reports to the Board. 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;
- (h) reporting to the Board, identifying and making recommendations on any matters where action or improvement is needed;

### ***Review of financial information of the Company***

- (i) monitoring the integrity of the Company's financial statements, annual report and accounts and half-year report, and reviewing significant financial reporting judgements contained in them;
- (j) in reviewing the Company's financial statements, annual report and accounts and half-year report, the Audit 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 other legal requirements in relation to financial reporting;
- (k) Regarding Article 28 (j) above:
  - (i) members of the Audit Committee should liaise with the Board, Senior Management and the Company's auditors;
  - (ii) the Audit Committee must meet with the Company's auditors at least twice a year; and
  - (iii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the financial statements, reports and accounts giving due consideration to any matters raised by the Company's staff responsible for the accounting and financial reporting function, qualified accountant, compliance officer or auditors.

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

- (l) acting as the key representative body for overseeing the Company's financial controls, risk management and internal control systems on an ongoing basis;
- (m) reviewing, at least annually, the effectiveness of the Group's risk management and internal control systems. The review should cover all material controls, including financial, operational and compliance controls, and consider the following:
  - (i) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - (ii) the scope and quality of the management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
  - (iii) the extent and frequency of communication of monitoring results to the Board (or board committee(s) of the Company) which enables it to assess control of the Company and the effectiveness of risk management;
  - (iv) significant control failings or weakness that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes and contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
  - (v) the effectiveness of the Company's processes for financial reporting and Listing Rules compliance, including without limited to handling and dissemination of inside information;
- (n) discussing 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;
- (o) considering 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;
- (p) where an internal audit function exists, ensuring co-ordination between the internal and external auditors;
- (q) ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and reviewing and monitoring its effectiveness;
- (r) reviewing the Group's financial and accounting policies and practises;

- (s) discussing with the external auditors any recommendations arising from the audit (if necessary in the absence of management of the Company) and reviewing 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;
- (t) ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (u) to report to the Board on the matters in the code provision C.3.3 of the Corporate Governance Code;
- (v) reviewing arrangements employees of the Company and those who deal with the Company (e.g. customers and suppliers) may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and appropriate follow-up action;
- (w) establishing a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company;
- (x) reporting to the Board on the matters set out in these Terms; and
- (y) considering other topics and matters, as defined by the Board.

## **CORPORATE GOVERNANCE FUNCTIONS**

29. The Audit Committee shall be responsible for the following corporate governance functions:
- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
  - (b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
  - (c) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
  - (d) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

## **REPORTING**

30. The secretary of an Audit Committee meeting shall record in sufficient detail the matters considered by the Audit Committee and decisions reached, including the names of those present and in attendance and any concerns raised by any member of the Audit Committee and/or dissenting views expressed.

31. Draft and final versions of minutes of Audit Committee meetings shall be sent to all Audit Committee members for their comment and records within a reasonable time after the meeting.
32. Minutes of the Audit Committee meetings shall be kept by the Joint Company Secretary and shall be available for inspection by any member of the Audit Committee or the Board at any reasonable time on reasonable notice.
33. The Audit Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).
34. The Audit Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or risk management system, or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.
35. The Audit Committee shall make a statement in the Annual Report of the Company about its activities.
36. 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.
37. The Audit Committee shall make available these Terms explaining its role and the authority delegated to it by the Board on the Company's and the Stock Exchange's websites.

## **MISCELLANEOUS**

38. The adoption of, and amendments to, these Terms require the approval of the Board to be effective.
39. The interpretation of these Terms shall be vested in the Board.

***Note: If there is any inconsistency between the English and Chinese versions of these Terms, the English version shall prevail.***

*(Adopted by the Company pursuant to the Board's resolutions passed on 8 December 2020)*