



## **LUEN THAI HOLDINGS LIMITED**

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

**(the “Company”)**

**(Stock Code: 311)**

### **AUDIT COMMITTEE**

#### **TERMS OF REFERENCE**

##### **MEMBERSHIP**

1. The Audit Committee (the “Committee”) shall be appointed by the board of directors (the “Board”) of the Company from time to time and must consist of not less than 3 members appointed from amongst the non-executive directors, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The majority of the Committee members must be independent non-executive directors. A quorum shall be 2 members and one of them must be an independent non-executive director.
2. The chairman of the Committee shall be appointed by the Board and must be an independent non-executive director.
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 1 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.

##### **ATTENDANCE AT MEETINGS**

4. The Chief Financial Officer, a representative of the external auditors and the head of internal audit, shall normally attend meetings. However, at least once a year the Committee shall meet with the external and internal auditors without executive Board members present.
5. The company secretary shall be the secretary of the Committee.

## **FREQUENCY AND NOTICES OF MEETINGS**

6. Meetings shall be held not less than two times a year. The external auditors may request a meeting if they consider that one is necessary.
7. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 7 days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at least 3 days before the date of the Committee meeting.

## **AUTHORITY**

8. The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Committee should be provided with sufficient resources to perform its duties.
9. The Committee is authorized 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.

## **RESPONSIBILITY**

10. The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
11. 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 internal controls of the Company and its subsidiaries (the “Group”), and as to the adequacy of the external and internal audits.

## DUTIES

12. The duties of the Committee include the following:

### *12.1 Relationship with the Company's external auditor*

- (a) to be primarily responsible for making recommendation 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 standard. The Committee should discuss with the auditor the nature and scope of the audit (including the engagement letter) 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;
- (d) to monitor integrity of 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 judgemental areas;
  - (iii) significant adjustments resulting from the 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.

- (e) In regard to (d) 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 Company's employee responsible for the accounting and financial reporting function, compliance officer or external auditors.

*12.2 Oversight of the Company's 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 system with management to ensure that management has performed its duty to have effective system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit 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) 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 financial and accounting policies and practices of the Company and its subsidiaries;
- (f) 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;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

- (h) to report to the Board on the matters set out in the Code Provision (in respect of the Committee) pursuant to “Appendix 14 — Corporate Governance Code” of the Listing Rules (“CG Code”); and
- (i) to consider other topics, as defined by the Board.

*12.3 Oversight of the Company’s corporate governance matters:*

- (a) to develop and review an issuer’s policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the issuer’s policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
- (e) to review the Company’s compliance with the CG Code and disclosure in the Corporate Governance Report; and
- (f) to consider other topics, as defined by the Board.

*12.4 Others*

- (a) 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; and
- (b) to act as the key representative body for overseeing the Company’s relations with the external auditor.

## REPORTING PROCEDURES

13. Full minutes of the Committee meetings should be kept by a duly appointed secretary of the meeting and shall be available for inspection by any Committee member or the Board at any reasonable time on reasonable notice.
14. The secretary of the Committee in attendance at the meetings of the Committee shall minute in sufficient detail the matters considered and decisions reached at such meetings. The minutes shall also include any concerns raised by any Committee member and/or dissenting views expressed.
15. Draft and final versions of minutes of the meetings should be sent to all Committee members for their comment and records within a reasonable time after the meeting.
16. 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.
17. The Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless prohibited by applicable laws and regulations (such as a restriction on disclosure due to regulatory requirements).

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