

# Kin Pang Holdings Limited

## 建鵬控股有限公司

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

**(Stock Code: 1722)**

### AUDIT COMMITTEE

### TERMS OF REFERENCE

#### CONSTITUTION

1. The board of directors (the “**Board**”) of Kin Pang Holdings Limited (the “**Company**”) has resolved to establish a Committee of the Board to be known as the Audit Committee (the “**Committee**”) at a meeting held on 24 November 2017.

#### MEMBERSHIP AND QUORUM

2. The Committee should be appointed by the Board from amongst the non-executive directors and independent non-executive directors of the Company and should consist of not less than three members, a majority of whom should be independent non-executive directors of the Company. A quorum should be two members, of whom one has to be an independent non-executive director of the Company (“**INED**”).
3. The chairman of the Committee should be appointed by the Board and must be an INED.
4. At least one Committee member is an INED 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**”).

A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Committee for a period of 2 years 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.

5. Any member should not appoint any person by himself as his/her alternate to attend the meeting or perform his/her duty.

#### SECRETARY

6. The company secretary of the Company, or in his/her absence, his/her representative, should act as the secretary of the Committee (the “**Secretary**”). The Committee may from time to time appoint any other person with appropriate qualification and experience as Secretary.

## **FREQUENCY OF MEETINGS**

7. The Committee should meet at least twice a year. Additional meetings should be held if the Committee considers it necessary or upon request of the Company's external auditors.

## **NOTICE OF MEETINGS**

8. The notice of any meetings of the Committee has to be given at least 14 days prior to any such meeting being held, unless all members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a member should be deemed waiver of the requisite length of notice by the member. Notice of any adjourned meeting is not required if the adjournment is less than 14 days.
9. The notice of meeting should state the date, time and venue of the meeting, and an agenda should attach to the notice.
10. Proceedings of meetings of the Committee should be governed by the provisions of the articles of association of the Company.
11. The Secretary should keep full minutes of all Committee meetings. 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.
12. The chief financial officer of the Company and a representative of the Company's external auditors should normally attend the meetings. The Committee may, from time to time, invite any appropriate person to attend the meeting whenever it is necessary. However, only members of the Committee are entitled to vote at the meetings. The Committee should meet with the external auditors in the absence of management (except by invitation of the Committee).

## **AUTHORITY**

13. The Committee is authorised by the Board:
  - (a) to investigate any activity within its terms of reference;
  - (b) to inspect all accounts, books and records of the Company; and
  - (c) to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Committee.
14. The Committee is authorised by the Board where necessary to obtain outside legal or other professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
15. The Committee should be provided with sufficient resources to perform its duties.

## **DUTIES**

The duties of the Committee should be:

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

- 161 (a) To make recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- (b) to approve the remuneration and terms of engagement of the external auditor; and
- (c) to consider any questions of resignation or dismissal of that auditor.
- 162 To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.
- 163 To discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences.
- 164 (a) 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; and
- (b) to report to the Board, identifying and making recommendations on any matters where action or improvement is needed.
- 165 To act as the key representative body for overseeing the Company's relations with the external auditor.

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

- 166 (a) To monitor 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.

In this regard, 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 other legal requirements in relation to financial reporting.

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

16.7 In regard to 16.6 above:

- (a) members of the Committee should liaise with the Board and senior management;
- (b) the Committee must meet, at least twice a year, with the Company's external auditors; and
- (c) 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.

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

16.8 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.

16.9 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.

16.10 To consider major investigations 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.

16.11 Where an internal audit function exists,

- (a) to ensure co-ordination between the internal and external auditors;
- (b) to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; and
- (c) to review and monitor its effectiveness.

- 16.12 To review the Group's financial and accounting policies and practices.
- 16.13 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.
- 16.14 To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- 16.15 To review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board.
- 16.16 To report to the Board on the matters in the code provision under Appendix 14 of the Listing Rules.
- 16.17 To consider any other matters specifically referred to the Committee by the Board including but not limited to the following:
- (a) to review the internal controls and risk management systems of the Company, including the internal controls on bank account management and the monitoring of bank transactions on a quarterly basis in order to detect and prevent improper bank activities and transactions;
  - (b) to review the report on bank account activities, material bank transactions and all incoming wire transfers on a quarterly basis to detect irregularities;
  - (c) to report irregularities (if any) to the Board and the Committee immediately;
  - (d) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action; and
  - (e) to review the findings of the Company's internal audit division from time to time.

## **Others**

- 16.18 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.
- 16.19 To review the Company's following 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.

## **Annual general meetings and terms of reference**

- 1620 The chairman of the Committee (or in his/her absence, another Member (who must be an INED) of the Committee) should attend the Company's annual general meetings and be prepared to respond to shareholders' questions on the Committee's activities and responsibilities.
- 1621 A copy of these Terms of Reference will be made available to any person without charge upon request.

## **REPORTING PROCEDURES**

17. The Secretary or his/her representative should circulate the minutes of meetings and reports of the Committee to all members of the Board.
18. The Committee should report to the Board of its findings, decisions and recommendations.
19. Reports to the Board and minutes of the Committee should be approved by the Committee before submitting to the Board.

## **COMPANY'S INTERNAL AUDIT DIVISION**

20. The Company's internal audit division will report to the Board from time to time and upon listing, will report to the Committee on a quarterly basis. The internal audit division is mandated to monitor the design and operating effectiveness of internal controls, including the internal controls on prohibition of improper use of the Company's bank accounts, and report on its findings of any material deviations from the Company's policies and guidelines.

Adopted on 24 November 2017 and revised on 31 December 2018

*Notes: If there are any discrepancies between the Chinese and English version, the English version shall prevail.*