



## VALUE CONVERGENCE HOLDINGS LIMITED

*(Incorporated in Hong Kong with limited liability)*

Website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

### TERMS OF REFERENCE OF AUDIT COMMITTEE

#### 1. Constitution

1.1 The board (the “**Board**”) of directors (the “**Director(s)**”) of Value Convergence Holdings Limited (the “**Company**”) has established a Committee of the Board known as the Audit Committee pursuant to the provisions of the Articles of Association of the Company.

#### 2. Membership

2.1 The Audit Committee is composed of a minimum of three Non-executive Directors, a majority of whom shall be Independent Non-executive Directors.

2.2 At least one of the Independent Non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2.3 Members of the Audit Committee (the “**AC Member(s)**”) may only be appointed or removed by the Board.

2.4 The Audit Committee must be chaired by an Independent Non-executive Director. The Chairman of the Audit Committee shall be appointed or removed by a decision of the Board.

2.5 A former partner of the Company’s existing auditing firm is prohibited from acting as a AC Member for a period of one 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.

### **3. Quorum**

3.1 Unless otherwise agreed by all the AC Members, two AC Members shall be a quorum.

### **4. Meetings**

4.1 The Audit Committee shall meet not less than two times a year.

4.2 The AC Members may participate in any meeting of the Audit Committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing and speaking to each other throughout the meeting. A person participating in this way is deemed to be present in person at the meeting and is counted in a quorum and entitled to vote.

4.3 Resolutions of the Audit Committee at any meeting shall be passed by a majority of votes of the AC Members present.

4.4 A resolution in writing signed by all the AC Members shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

4.5 As necessary or desirable, the Chairman of the Audit Committee may request that members of Management, the head of internal audit and representatives of the external auditor be present at meetings of the Audit Committee. The Audit Committee shall meet with the external auditors at least twice a year.

4.6 Only AC Members are entitled to vote at the meeting.

4.7 All meetings and proceedings of the Audit Committee shall be governed by the provisions of the Articles of Association of the Company regulating proceedings of meetings of the Board unless otherwise provided herein.

4.8 Full minutes shall be kept by the company secretary of the Company. Draft and final versions of minutes of the meetings shall be circulated to all AC Members for their comment and records, within a reasonable time after the meeting.

### **5. Authority**

5.1 The Audit Committee shall report directly to the Board.

5.2 The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by the AC Members. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Audit Committee.

- 5.3 The Audit Committee is authorised to inspect all accounts, books and records of the Company and the Audit Committee shall have the right to require the Management of the Company to furnish all information requested by the Audit Committee as may be required for the purpose of discharging its duties.
- 5.4 The Audit Committee shall report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention.
- 5.5 The Audit Committee will be provided with sufficient resources to discharge its duties.

## **6. Duties and Powers**

The Audit Committee is established with the following duties and powers:

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

- (a) to be primarily responsible for making 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 that 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 standards;
- (c) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (d) to develop and implement policy on engaging an external auditor to supply non-audit services and report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (e) to act as the key representative body for overseeing the Company's relations with the external auditor;

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

- (a) to monitor the integrity of the Company's financial statements and annual report and accounts and half-year report and to review significant financial reporting judgements contained in them. In reviewing the Company's annual report and accounts and half-year report before submission to the Board, the Audit Committee is required to focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental 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 legal requirements in relation to financial reporting;

(b) in relation to 6.2(a) above, AC Members are required to:

- (i) liaise with the Board and Management;
- (ii) meet with the Company's external auditors at least twice a year; and
- (iii) consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it shall 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 external auditors;

6.3 *Oversight of the Company's financial reporting system and internal control procedures, including internal audit*

- (a) to review the Company's financial controls, internal control and risk management systems;
- (b) to discuss the internal control system with Management to ensure that Management has performed its duty to have an effective internal control system. This discussion shall include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (c) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and Management's response to these findings;
- (d) to ensure coordination between the Company's 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 Group's financial and accounting policies and practices;
- (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 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 Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action.

#### 6.4 *General*

- (a) to report to the Board on the matters in the code provision of the Corporate Governance Code of the Listing Rules;
- (b) to consider any other topics specified by the Board; and
- (c) to report to the Board in relation to any other significant decisions and recommendations of the Audit Committee which ought properly to be brought to the attention of the full Board.

### **7 Annual General Meeting**

- 7.1 The Chairman of the Audit Committee or in his/her absence, another AC Member (who must be an independent non-executive Director) of the Audit Committee, shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee activities and their responsibilities.

*(Updated in December 2015)*