



CHINA TANGSHANG HOLDINGS LIMITED

中國唐商控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 674)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE COMPANY (THE “COMMITTEE”)

(Updated with effect from 1 January 2019)

MEMBERSHIP

1. Members of the Committee shall be appointed by board of directors (the “Board”) of the Company. The Committee must consist of a minimum of three members, all of whom must be non-executive directors.
2. The majority of the members of the Committee must be independent non-executive directors (“INEDs”), at least one of whom must be 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).
3. The chairman of the Committee shall be appointed by the Board and must be an INED.
4. A former partner of the existing auditing firm of the Company is prohibited from acting as a member of the Committee for a period of two year commencing on the later of (a) the date of his ceasing to be a partner of the firm; or (b) the date of his ceasing to have any financial interest in the firm.
5. The appointment of the members of the Committee may be revoked and additional members may be appointed to the Committee by resolutions passed by the Board.

6. The Chief Financial Officer, the head or a representative of the Internal Audit Department, and a representative of the external auditor shall normally attend the meetings. Other Board members shall have the right to attend the meetings of the Committee. However, the Committee shall meet with the external auditor of the Company in the absence of any executive directors at least once a year.
7. The company secretary shall be the secretary of the Committee. In the absence of the company secretary, his/her delegate(s) or any person elected by the members present at the meeting of the Committee, shall attend the meeting of the Committee and take minutes.

FREQUENCY AND PROCEEDINGS OF THE COMMITTEE MEETINGS

8. Meetings shall be held at least twice a year. Additional meetings shall be held as the work of the Committee demands.
9. The chairman of the Committee may convene additional meetings at his discretion.
10. The external auditors may request a meeting with the Committee if they consider it necessary.
11. The quorum of a meeting shall be two members of the Committee.
12. Proceedings of meetings of the Committee shall be governed by the provisions in the Bye-Laws of the Company.

AUTHORITY

13. The Committee is authorised to inspect all accounts, books and records of the Company and the Committee shall have the right to require the management of the Company to furnish all information requested by the Committee as may be required for the purposes of discharging its duties.
14. The Committee is authorised to obtain external legal and other independent professional advice, at the Company's expense, where it considers necessary.

WRITTEN RESOLUTION

15. Written resolutions may be passed by all Committee members in writing.

DUTIES, POWERS AND FUNCTIONS

16. The duties of the Committee shall include the following aspects:

Relationship with the Company's external auditor

- (a) 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;
- (b) 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 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;

Review of the Company's financial information

- (d) 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 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 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 legal requirements in relation to financial reporting;

(e) Regarding (d) above:

- (i) members of the Committee should liaise with the Board and the Company's senior management 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 report 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, risk management and internal control systems

- (f) to review the Company's financial controls, and unless expressly addressed by a separate risk committee of the Board, or by the Board itself, to review the Company's risk management and internal control systems;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) to review the Group's financial and accounting policies and practices;
- (k) 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 risk management and control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters in these terms of reference and those set out in the code provisions as stated in Appendix 14 of the Listing Rules from time to time;

- (n) to review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, 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;
- (o) to act as the key representative body for overseeing the Company's relations with the external auditor; and
- (p) to consider other topics, as defined by the Board.

REPORTING PROCEDURE

- 17. The Committee should report to the Board on a regular basis on its decisions or recommendations. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report to the Board on the findings and recommendations of the Committee. At least once annually, the Committee should present a report in writing to the Board which addresses the work and findings of the Committee during the year.
- 18. Full minutes of the meetings of the Committee shall be kept by the secretary of the Committee, who shall send draft and final versions of minutes of meetings and all written resolutions of the Committee to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.
- 19. 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.

ANNUAL GENERAL MEETING

- 20. The chairman of the Committee or in his absence, another member of the Committee or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to questions at the annual general meeting on the Committee's work and responsibilities.

PUBLICATION OF THESE TERMS OF REFERENCE

- 21. A copy of these terms of reference will be made available to any person without charge upon request and be posted on the respective website of the Company and the Stock Exchange.