



# XIWANG SPECIAL STEEL COMPANY LIMITED

## 西王特鋼有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 1266)**

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### **Constitution**

1. The Audit Committee is established as a committee of the board of directors of the Company (the “**Board**”).

#### **Objective**

2. The Audit Committee shall be responsible for ensuring the objectivity and credibility of financial reporting, monitoring the internal controls and risk management of the Company, and maintaining an appropriate relationship with the external auditor.

#### **Membership**

3. The Audit Committee shall consist of Non-executive Directors only, with a minimum of three members, at least one of them shall be an Independent Non-executive Director 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**”). The majority of the members must be Independent Non-executive Directors of the Company. All of the members shall be appointed by the Board.
4. A former partner of the Company’s existing auditing firm from time to time may not act as a member of the Audit Committee for a period of two (2) years 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.
5. The Chairman of the Audit Committee shall be appointed by the Board from among its Independent Non-executive Directors.

### **Frequency of meetings**

6. The Audit Committee shall meet at least twice a year with the Company's auditors. The external auditor may request a meeting if it considers it necessary.

### **Notice of meetings**

7. Meetings of the Audit Committee shall be called by its Chairman or at the request of the Board.
8. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be issued to each member of the Audit Committee and any other person required to attend no fewer than three (3) working days prior to the date of the meeting.

### **Attendance at meetings**

9. A quorum shall be two members.
10. The Chief Financial Officer, the head or a representative of the Internal Audit Department, and a representative of the external auditor shall normally attend meetings. Other Board members shall have the right to attend meetings of the Audit Committee. However, the Audit Committee shall meet with the external auditor of the Company without the presence of its Executive Directors at least twice a year.
11. The company secretary of the Company shall be the secretary of the Audit Committee. The secretary of the Audit Committee or in his/her absence, his/her representative or any one member of the Audit Committee, shall be the secretary of the meetings of the Audit Committee.

### **Authority**

12. The Audit 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 in order to perform its duties. All employees are directed to co-operate with any request made by the Audit Committee.

13. The Audit Committee is authorized by the Board, at the Company's expense, to appoint legal or other independent professional advisers with relevant experience and expertise to assist the Audit Committee and to secure the attendance of such professional advisers at its meetings if it considers it necessary.
14. The Audit Committee is authorized to require management to provide it with sufficient resources to perform its duties.

## **Duties**

15. The duties of the Audit Committee shall be:
  - (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;
  - (c) to discuss with the auditor before the audit process commences, the nature and scope of the audit and reporting obligations, and ensure coordination where more than one auditor is involved;
  - (d) to develop and implement policy on engaging an external auditor to supply non-audit services (for which 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 report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
  - (e) to monitor the integrity of the Company's 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;

- (f) in reviewing the reports specified in paragraph 15(e) above, before submission to the Board, to 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 assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting,  
  
and regarding paragraphs 15(f)(i) to (vi) above, to:
    - (vii) liaise with the Board and the senior management to carry out such review; and
    - (viii) consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and 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;
- (g) to review the Company's financial controls, risk management and internal control systems;
- (h) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (i) 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;

- (j) to review and monitor the effectiveness of the internal audit function where such exists, ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (k) to review the group's financial and accounting policies and practices;
- (l) 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;
- (m) to ensure that the Board provides a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters in these terms of reference;
- (o) 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 and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (p) to act as the key representative body for overseeing the Company's relations with the external auditor; and discuss problems and reservations arising from the interim and final financial statements, and any other matters the external auditor may wish to discuss (in the absence of management where necessary);
- (q) to review the Company's statement on risk management and internal control systems to be included in the annual report prior to endorsement by the Board;
- (r) to consider other topics, as defined or instructed by the Board;
- (s) to make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the website of The Stock Exchange of Hong Kong Limited and the Company;
- (t) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (u) to review and monitor the training and continuous professional development of Directors and senior management;

- (v) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (w) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (x) to review the Company's compliance with the Corporate Governance Code of Appendix 14 of the Listing Rules and disclosure in the corporate governance report.

### **Reporting procedures**

16. The secretary of the Audit Committee shall keep full minutes of all Audit Committee meetings, and such minutes shall be available for inspection at any reasonable time on reasonable notice by any Director.
17. Minutes of Audit Committee meetings shall record in sufficient detail the matters considered by the Audit Committee members and decisions reached, including any concerns raised by the Audit Committee members and dissenting views expressed. Draft and final versions of minutes of meeting of the Audit Committee shall be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.
18. The secretary of the Audit Committee shall also circulate the minutes of meetings, reports and all written resolutions of the Audit Committee meetings to all members of the Board.

*(Adopted on 30 December 2015 and revised on 28 December 2018)*