

TIANHE CHEMICALS GROUP LIMITED

天合化工集團有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 1619)

(the “Company”)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

(AS REVISED AND ADOPTED ON 10 JANUARY 2019)

1. CONSTITUTION

- 1.1 The audit committee (the “**Committee**”) is established pursuant to a resolution passed by the board of directors (the “**Board**”) of the Company on 22 May 2014.
- 1.2 The terms of reference of the Committee shall comply with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and any other regulatory requirements as amended from time to time.
- 1.3 Save as otherwise provided herein expressly, proceedings of meetings of the Committee shall be governed by the provision of the articles of association of the Company for regulating the proceedings of meetings of the Board mutatis mutandis.

2. MEMBERSHIP

- 2.1 The Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of which should be independent non-executive directors (“**INEDs**”). The chairman of the Committee shall be an INED. In the absence of the chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 2.2 At least one member must be an INED with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.
- 2.3 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of two 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.

- 2.4 Each member of the Committee shall disclose to the Committee any personal financial interest or any potential conflict of interest (other than as a shareholder) in any matter to be decided by the Committee.
- 2.5 The term of the members of the Committee is the same as that of directors and the members may be re-appointed upon the expiry of the current term. If a member resigns, ceases to be a director or for any other reason ceases to be a member of the Committee resulting in a reduction of the number of members below the minimum, the Board shall promptly appoint such number of new members as may be required to make up the minimum according to the aforesaid provisions.
- 2.6 The company secretary of the Company or any person appointed by the Committee shall be the secretary of the Committee. In the absence of the secretary, the members present shall elect one of themselves or appoint another person as the secretary for that meeting.

3. ATTENDANCE AT MEETINGS

- 3.1 At all times the members of the Committee shall be notified of and be invited to attend all meetings of the Committee.
- 3.2 The quorum of a meeting of the Committee shall be two, of which at least one of them should be an INED. No business shall be transacted at any meeting of the Committee unless a quorum is present.
- 3.3 Only members of the Committee have the right to attend Committee meetings. Other persons, including but not limited to, any director, management, external advisors or consultants may be invited by the Committee to attend for all or part of any meeting as and when appropriate.
- 3.4 Members of the Committee may participate in a meeting of the Committee by means of a conference telephone or other communications equipment through which all persons participating in the meeting can hear each other. Participation of any person in a meeting pursuant to this provision shall constitute presence in person at such meeting.

4. FREQUENCY AND NOTICE OF MEETINGS

- 4.1 Meetings of the Committee shall be held not less than twice a year. The external auditors or any members of the Committee may request a meeting if they consider necessary. The Committee shall coordinate with the Company in the announcement of interim reports and annual reports and shall convene a regular meeting at least before each report announcement. Upon the receipt of such request, the secretary of the Committee shall convene a meeting as soon as reasonably practicable and having regard to the convenience of all members with priority given to the INEDs.
- 4.2 Unless otherwise agreed by all the members of the Committee, notice of each meeting stating the time, date and place of the meeting shall be given to each member of the Committee and any other person invited to attend at least seven days prior to the date of the meeting (or such other period as all the members of the Committee may agree).

4.3 Agenda and any supporting documents and papers shall be forwarded to each member of the Committee and any other person invited to attend at least two days prior to the date of the meeting (or such other period as the members may agree).

5. COMMITTEE'S RESOLUTIONS

5.1 Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present. Each member of the Committee shall have one vote. In the case of any equality of votes the chairman of the meeting shall have an additional or casting vote.

5.2 A resolution in writing signed by all the members of the Committee shall be as valid and effective as if it had been passed at a meeting of the Committee. Such resolution may be signed and circulated by facsimile or other forms of electronic communications. Any such resolution may be contained in a single document or may consist of counterparts each signed by one or more of the members of the Committee.

5.3 Members must abstain from voting in respect of any resolution which he is an interested party.

6. AUTHORITY

6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee or executive director and such persons are directed to co-operate with any request made by the Committee. The authorities of the Committee shall include such authorities set out in the relevant code provisions of the Corporate Governance Code (the “**Corporate Governance Code**”) as contained in Appendix 14 of the Listing Rules (as amended from time to time).

6.2 The Committee is authorised by the Board, and at the reasonable expense of the Company, to obtain legal or other independent professional advice and to secure the attendance of other persons with relevant experience and expertise in the meetings of the Committee if it considers this necessary.

6.3 The Committee shall report to the Board any suspected fraud or irregularities, failures of internal control and suspected infringements of any laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

6.4 The Committee shall be provided with sufficient resources to perform its duties.

7. DUTIES

7.1 The Committee shall serve as a focal point for communication between other directors, the external auditors and the internal auditors regarding their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other matters as the Board determines from time to time.

- 7.2 The Committee shall 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 risk management and internal control systems of the Company and its subsidiaries (the “**Group**”), and as to the adequacy of the internal and external audits.
- 7.3 The duties and functions of the Committee shall include such duties and functions set out in the relevant code provisions of the Corporate Governance Code. Without limitation to the foregoing, the Committee shall:

Relationship with the Company’s external auditors

- (a) be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. In this connection, the Committee shall:
 - (i) consider all relationships between the Company and the audit firm (including non-audit services);
 - (ii) obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
 - (iii) meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise;
- (c) discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (d) 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;
- (e) consider the Company’s policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The Committee should then consider whether there has been or appears to be any impairment of the auditor’s judgment or independence for the audit;

- (f) ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee may consider:
 - (i) whether the skills and experience of the audit firm make it a suitable supplier of non-audit services;
 - (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
 - (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and
 - (iv) criteria for compensation of the individuals performing the audit;

Review of financial information of the Company

- (g) monitor integrity of the Company's financial statements and the 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 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;
- (h) in regard to (g) 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 auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, and 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

- (i) review the Company's financial controls, risk management and internal control systems;
- (j) 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;
- (k) 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;
- (l) 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;
- (m) review the Group's financial and accounting policies and practices;
- (n) 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;
- (o) ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (p) 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;
- (q) act as the key representative body for overseeing the Company's relations with the external auditor;
- (r) establish whistleblowing policies and systems to allow employees and others who deals with the Company (such as customers and suppliers) to raise their concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company;
- (s) report to the Board on the above matters; and
- (t) consider other topics, as defined by the Board.

8. REPORTING PROCEDURES

- 8.1 The secretary of the Committee shall cause full minutes with sufficient details to be made in books to be provided for the purpose of the proceedings of all meetings of the Committee and of the attendances thereat and of all business transacted, resolutions passed and orders made at such meetings.
- 8.2 Draft and final versions of minutes of meetings of the Committee shall be sent to all members of the Committee for their comment and records respectively, in both cases as soon as practicable after the meeting.
- 8.3 Any such minutes of any meeting, if purporting to be signed by the chairman of such meeting or by the chairman of the next succeeding meeting of the Committee, shall be sufficient evidence without any further proof of the facts therein stated.
- 8.4 The Committee shall make available at least one of its members to attend the Company's annual general meeting to answer shareholders' questions about audit issues.
- 8.5 Members attending the meeting and persons sitting in on the meeting shall maintain the confidentiality of all matters discussed at the meeting. Unauthorized disclosure of the relevant information shall be prohibited.
- 8.6 The Committee shall make available its terms of reference on the website of The Stock Exchange of Hong Kong Limited and the Company's website to explain its role and the authority delegated to it by the Board.
- 8.7 The work of the Committee during each financial year shall be summarized and included in the Corporate Governance Report which constitutes part of the annual report.
- 8.8 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.

9. REVISION OF THESE TERMS OF REFERENCE

- 9.1 These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. the Listing Rules). Any amendment to these terms of reference shall be by way of resolution of the Board.
- 9.2 If there is any inconsistency between the English and Chinese version of these terms of reference, the English version shall prevail.