



## TESSON HOLDINGS LIMITED

天臣控股有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1201)**

### **Terms of Reference of the Audit Committee**

#### **1. CONSTITUTION**

The board of directors (the “**Board**”) of Tesson Holdings Limited (the “**Company**”) has resolved to establish an Audit Committee of the Board to be known as the Audit Committee (the “**Audit Committee**”).

#### **2. FUNCTIONS AND OBJECTIVES**

The purpose of the Audit Committee is to assist the Board in considering how the Board should apply financial reporting, risk management and internal control principles in the Company and its subsidiaries (collectively referred to as the “**Group**”) and maintaining an appropriate relationship with the Group's auditors.

#### **3. COMPOSITION**

3.1 The Audit Committee shall comprise a minimum of three members consisting of non-executive directors only and the majority of the Audit Committee members must be independent non-executive directors. 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**”). All of the members shall be appointed by the Board. A quorum shall be two members.

3.2 A former partner of the Group's existing auditing firm from time to time may not act as a member of the Audit Committee for a period of one year commencing on 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 the later.

3.3 The Chairman of the Audit Committee shall be appointed by the Board from among its independent non-executive directors.

3.4 The term of the Audit Committee shall be the same as that of the Board. The appointment can be renewed.

#### **4. FREQUENCY OF MEETINGS**

- 4.1 The Audit Committee shall meet at least twice a year or more frequently if circumstances require. The external auditor may request for meetings with the Audit Committee if it considers necessary.
- 4.2 The meeting may be held by a telephone conference or other telecommunications means. The Audit Committee may replace the meeting with written proposals, and adopt resolutions by written votes without a meeting in person. The written resolutions takes effect when the meeting materials are delivered to all Audit Committee members and affirmatively voting Audit Committee members reach the legitimate quorum for passing such resolution.

#### **5. NOTICE OF MEETINGS**

- 5.1 Meetings of the Audit Committee shall be called by its Chairman or at the request of the Board.
- 5.2 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 working days prior to the date of the meeting.

#### **6. ATTENDANCE AT MEETINGS**

- 6.1 The Chairman shall preside at all meetings of the Audit Committee. In the absence of the Chairman, the remaining members present shall elect one of themselves to chair the meeting. The Chairman shall be responsible for leading the Audit Committee, including scheduling meetings, preparing agendas and making regular reports to the Board.
- 6.2 An Audit Committee member can authorize another Audit Committee member to attend on his/her behalf by written proxy, which shall state the scope of authorization.
- 6.3 The Chief Financial Officer, the head or a representative of the internal audit function (if any), 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 Group without the presence of its executive directors at least once a year and may request any director, any member of senior management or any other individual to attend its meetings.
- 6.4 The company secretary of the Group or his/her nominee shall be the secretary of the Audit Committee.

## **7. AUTHORITIES**

- 7.1 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.
- 7.2 The Audit Committee is authorized by the Board, at the Group'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 necessary.
- 7.3 The Audit Committee is authorized to require management to provide it with such resources as may be necessary for it to discharge its duties.

## **8. DUTIES OF THE AUDIT COMMITTEE**

In addition to any other responsibilities which may be assigned from time to time by the Board, 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 regarding the resignation or dismissal of the external auditor;
- (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 auditors before the audit process commences, the nature and scope of the audit and reporting obligations;
- (d) 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 report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (e) to monitor the integrity of the Group's financial statements, annual report and account, half-year report and, if prepared for publication, quarterly reports and to review significant financial reporting judgments contained in them;

- (f) in reviewing the annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, to 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; and
  - (v) compliance with accounting standards, Listing Rules and legal requirements in relation to financial reporting;
- (g) liaise with the Group's Board and the senior management to carry out such review and meet, at least twice a year, with the Group's auditors; and
- (h) consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give due consideration to any matters that have been raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (i) to review the Group's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Group's risk management and internal control systems;
- (j) 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 Group's accounting and financial reporting function;
- (k) 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;
- (l) 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 Group, and to review and monitor its effectiveness;
- (m) to review the Group's financial and accounting policies and practices;
- (n) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (o) to ensure that the Board provides a timely response to the issues raised in the external auditor's management letter;

- (p) to review arrangements employees of the Group 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;
- (q) to act as the key representative body for overseeing the Group's relationship with the external auditor;
- (r) to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal controls systems. The Committee should oversee management in the design, implementation and monitoring of the risk management and internal control systems;
- (s) to oversee the Group's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the Group's risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls;
- (t) to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.
- (u) to consider the changes, since the last annual review, in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment;
- (v) to consider the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
- (w) to consider the extent and frequency of communication of monitoring results to the board;
- (x) to consider significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition;
- (y) to consider the effectiveness of the Group's processes for financial reporting and Listing Rule compliance;
- (z) to consider other topics, as defined by the Board; and
- (aa) to report to the Board on the matters set out in this paragraph 8.

## **9. REPORTING PROCEDURES**

- 9.1 Minutes of the Audit Committee's meetings shall be kept by a duly appointed secretary of the meeting (who should normally be the company secretary of the Group), and such minutes shall be available for inspection at any reasonable time on reasonable notice by any director.
- 9.2 Minutes of meetings of the Audit Committee shall record in sufficient detail the matters considered by the Audit Committee and decisions reached, including any concerns raised by directors, members or dissenting views expressed.
- 9.3 Draft and final versions of minutes of such meetings should be sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after such meetings.
- 9.4 Without prejudice to the generality of the duties of the Audit Committee set out in these terms, the Audit Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on its ability to do so.

## **10. ANNUAL GENERAL MEETING**

The Chairman, or in his/her absence, another member of the Audit Committee, or failing this his/her duly appointed delegate shall attend the annual general meeting of the Group and be prepared to respond to any shareholder's questions on the Audit Committee's activities.

## **11. TERMS AVAILABLE**

The Audit Committee shall make available these terms of reference by including them on the websites of The Stock Exchange of Hong Kong Limited and the Group, thereby explaining its roles and the authority delegated to it by the Board.

## **12. VALIDITY AND AMENDMENT**

- 12.1 These terms of reference shall take effect upon the adoption by a Board resolution.
- 12.2 Any amendment or termination of these terms of reference is subject to the Board's resolution.

(Current version adopted on 23 December 2015)