



**LONKING HOLDINGS LIMITED**

**中國龍工控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3339)**

## **Terms of Reference for Audit Committee**

### **1. Purpose**

The purpose of the audit committee (the “Audit Committee”) of Lonking Holdings Limited (the “Company”) is to assist its board of directors (the “Board”) in considering how the Board should apply financial reporting and internal control principles and maintain an appropriate relationship with the Company’s auditors.

### **2. Membership**

2.1 The Audit Committee shall comprise a minimum of three members consisting of non-executive directors of the Company only and a majority of which must be independent non-executive directors. The Audit Committee must comprise at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) (as amended from time to time). The quorum of the meetings of the Audit Committee shall be two members.

2.2 The chairman of the Audit Committee (the “Chairman”) shall be appointed by the Board and must be an independent non-executive director of the Company.

2.3 A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee 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. Secretary**

3.1 The company secretary of the Company (or his/her delegate) shall be the secretary of the Audit Committee.

3.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the Secretary of the Audit Committee.

#### **4. Meetings**

- 4.1 The financial director of the Company, the head of internal auditor and a representative of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance.
- 4.2 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 (who shall be an independent non-executive director) to chair the meeting.
- 4.3 The Audit Committee shall meet at least twice annually or more frequently if circumstances require. The Board, any member of the Audit Committee and the external auditors may request a meeting if they consider necessary.

#### **5. Authority**

- 5.1 The Audit 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 and all employees will be directed to co-operate with any request made by the Audit Committee.
- 5.2 The Audit Committee is authorised by the Board to obtain outside independent legal or other professional advice and to secure the attendance of outsiders with relevant experience and expertise at meetings of the Audit Committee if it considers this necessary.
- 5.3 Where the Board disagrees with the Audit 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 Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 5.4 The Audit Committee should be provided with sufficient resources to perform its duties.

#### **6. Responsibilities and Duties**

- 6.1 The Audit Committee shall perform following duties:
  - (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 Audit 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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to monitor the 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 Audit Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental 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;

*Notes:*

Regarding (d) above:

- (i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company’s external auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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.
- (e) to review the Company’s financial controls, internal control and risk management systems;

- (f) 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 should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (g) 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;
- (h) 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;
- (i) to review the Group's financial and accounting policies and practices;
- (j) to review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (k) to ensure that the Board will provide a timely response to the issues raised in external auditors' management letter;
- (l) to report to the Board on the matters in the Corporate Governance Code under Appendix 14 of the Listing Rules;
- (m) to review arrangements which employees of the Company can use, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action;
- (n) to act as the key representative body for overseeing the Company's relationship with the external auditor;
- (o) to review ongoing connected transactions of the Company and ensure compliance with terms of approval by shareholders of the Company; and
- (p) to consider such other matters as the Board may from time to time determine.

## **7. Reporting procedures**

- 7.1 The Audit Committee shall evaluate and assess its effectiveness and the adequacy of its terms of reference on an annual basis and recommend any proposed changes to the Board.
- 7.2 Full minutes of meetings of the Audit Committee should be kept by the secretary of the Audit Committee. Draft and final versions of minutes of the meetings should be sent to all members of the Audit Committee for their comment and records within a reasonable time after the meeting. Final versions of the minutes of meetings of the Audit Committee shall be sent to all Board members as soon as practicable after the conclusion of any meeting of the Audit Committee.

## **8. 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 meetings of the company prepared to respond to any shareholder questions at the meeting

\* *for identification purposes only*