

# **EARNEST INVESTMENTS HOLDINGS LIMITED**

(Continued into Bermuda with limited liability)

(Stock Code: 339)

## **AUDIT COMMITTEE TERMS OF REFERENCE**

Adoption Date: 16 September 2004  
1<sup>st</sup> Revised Date: 28 March 2012  
2<sup>nd</sup> Revised Date: 28 December 2015

### **1. Membership and Quorum**

- 1.1 The Audit Committee (the “Committee”) shall be appointed by the board of directors (the “Board”) of Earnest Investments Holdings Limited (the “Company”) from amongst the Non-executive Directors of the Company and shall consist of not less than three members, a majority of whom shall be Independent Non-executive Directors of the Company and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). A quorum shall be two members.
- 1.2 The chairman of the Committee shall be appointed by the Board and must be an Independent Non-executive Director of the Company.
- 1.3 A former partner of the existing auditing firm of the Company and its subsidiaries (the “Group”) shall be prohibited from acting as a member of the 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.

### **2. Secretary**

- 2.1 The Company Secretary of the Company or his/her nominee shall be the secretary of the Committee (the “Secretary”).

### **3. Meeting**

- 3.1 The Committee shall meet as and when necessary or as requested by any Committee member or the external auditors. The Committee shall meet not less than two times a year.
- 3.2 The chief financial officer/financial controller, the head of internal audit (if any) of the Group and a representative of the external auditors shall normally attend meetings of the Committee.

- 3.3 Relevant notice, including an agenda and accompanying papers, shall be sent in full to all members of the Committee in a timely manner and at least 3 days before the intended date of the meeting of the Committee (or such other period as agreed by its members).
- 3.4 The meetings and proceedings of the Committee are governed by the provisions of the Bye-laws of the Company for regulating the meetings and proceedings of the Board.

#### **4. Reporting Procedures**

- 4.1 The Secretary shall keep full minutes of each Committee meeting. Draft and final versions of the minutes shall within a reasonable time from such meeting be sent to all members of the Committee for their comments and records respectively.
- 4.2 The Secretary shall circulate the minutes of Committee meetings to all members of the Board.
- 4.3 The Committee should report to the Board on a regular basis. 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.

## **5. Consultation**

- 5.1 The Committee shall, at the expenses of the Group, have access to independent professional advice if considered necessary.

## **6. Responsibility**

- 6.1 The Committee is to serve as a focal point for communication between other directors, the external auditor and the internal auditor (if any) as regards their duties relating to financial and other reporting, risk management, internal controls, external and internal audits and such other matters as the Board determine from time to time.
- 6.2 The Committee is to 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 controls of the Group and as to the adequacy of the external and internal audits.

## **7. Authority**

- 7.1 The authority of the Committee is derived from the Board, therefore the Committee is obliged to report to the Board on its decisions or recommendations.
- 7.2 The Committee is authorized by the board to investigate any activity within its terms of reference and shall be provided with sufficient resources to perform its duties. It is authorized to seek any information it requires from any employee of the Group and members of the Board in order to perform its duties and all employees of the Group and members of the Board are directed to co-operate with any request made by the Committee within the scope of this terms of reference.
- 7.3 The Committee has the authority to exercise the following powers:
- (a) to make recommendations to the Board for the improvement of the Group's risk management and internal control procedures and systems;  
and

- (b) subject to prior approval by the Board, to obtain outside legal or other independent professional advice and to secure their attendance in the Committee's meetings where necessary.

## **8. Duties, powers and functions**

The Committee shall have the following duties:

### **8.1 Relationship with the Group's auditors**

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve and (periodically) review the remuneration and terms of engagement of the external auditor and any questions of its resignation or dismissal;
- (b) to review and monitor the independence and objectivity of the external auditor. The Committee shall:
  - (i) consider the relationship between the Group and/or the directors of the Group and the external auditors; and
  - (ii) seek from the external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding rotation of audit partners and staff;
- (c) to review and monitor the effectiveness of the audit process in accordance with applicable standards. The Committee shall discuss with the external auditors the nature and the scope of the audit and reporting obligations before the commencement of the audit;
- (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;
- (e) to report to the Board and to identify and make recommendations on any matters where action or improvement is needed; and

- (f) to discuss problems and reservations arising from the quarterly (if any), interim and final audits, and any matters the external auditors may wish to discuss (in the absence of the management where necessary).

## 8.2 Review of financial information of the Group

- (a) to monitor the integrity of financial statements and the annual report and accounts, half-year report and quarterly reports (if any), and to review significant financial reporting judgments contained in them. In reviewing the Group's reports and accounts before submission to the Board, the Committee shall 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;
  - (iv) compliance with accounting standards;
  - (v) compliance with the Listing Rules and legal requirements in relation to financial reporting;
  - (vi) any connected transactions and their impact on the profitability of the Group;
  - (vii) items requiring disclosure; and
  - (viii) the cash flow position;
- (b) in respect of (a) above, the members of the Committee shall liaise with the Board and the management of the Group and the Committee must meet at least twice a year with the Group's auditors; and
- (c) in respect of (a) above, the 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 Group's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

## 8.3 Oversee the Group's financial and non-financial reporting systems, and the risk management and internal control systems

- (a) to review the Group's financial controls, and (unless expressly addressed by a separate risk management committee, or by the Board itself,) to review the Company's risk management and internal control systems as well as any statement by the directors to be included in the annual accounts prior to endorsement by the Board;

- (b) to discuss the risk management and internal control systems with management of the Group to ensure that the management of the Group has performed its duty to have effective risk management and internal control 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 and to rectify any weaknesses that may be revealed from time to time;
- (c) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on the Committee's own initiative and the Group's management's response to these findings;
- (d) 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;
- (e) to review the Group's financial and accounting policies and practices and to assure that appropriate accounting principles and reporting practices governing financial reporting are followed;
- (f) to review the arrangements of the Group's employees 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;
- (g) to review the external auditor's management letter, any material queries raised by the auditor to the management of the Group about accounting records, financial accounts or systems of control and management response; and
- (h) to ensure the Board will provide a timely response to issues raised in the external auditors' management letter.

#### 8.4 Corporate governance functions

- (a) to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (e) to review the Group's compliance with the Corporate Governance Code and Corporate Governance Report set out in the Listing Rules.

#### 8.5 Other Duties

- (a) to report to the Board on the matters set out in the Corporate Governance Code of the Listing Rules;
- (b) to act as the key representative body for overseeing the Group's relations with the external auditor; and
- (c) to consider other topics as defined by the Board from time to time.

*Note: If there is any inconsistency between the English and Chinese versions of this terms of reference, the English version shall prevail.*