

**HANISON CONSTRUCTION HOLDINGS LIMITED**  
**(THE “COMPANY”)**  
**(Stock Code: 896)**

**TERMS OF REFERENCE OF AUDIT COMMITTEE**

**Membership**

The Audit Committee (the “Committee”) shall be appointed by the board of directors (the “Board”) from amongst the non-executive directors of the Company and shall comprise a minimum of three members, at least one of whom is an independent non-executive director with 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 (“Listing Rules”). The majority of the Committee members must be independent non-executive directors of the Company. The Committee shall be chaired by an independent non-executive director, and a quorum shall be two members.

No former partner of the Company’s existing auditing firm may serve as a member of the Committee for a period of 1 year from the date of his ceasing to be a partner of the firm; or to have any financial interest in the firm, whichever is later.

**Attendance at Meetings**

The Financial Controller and a representative of the external auditors shall normally attend meetings. Other directors shall also have the right of attendance at any meeting of the Committee, but at least twice a year the Committee shall meet with the external auditors of the Company without executive directors present. Members of the Committee shall also liaise with other directors and senior management of the Company.

The secretary of the Company shall be the secretary of the Committee, who shall circulate draft and final versions of minutes of meetings of the Committee to all members for their comment and records within a reasonable time after the meeting. Full minutes of the Committee meetings should be kept by the secretary of the Company.

**Frequency of Meetings**

Meetings of the Committee shall be held not less than twice a year, and the external auditors may request a meeting if they consider that one is necessary.

## **Authority**

The Audit Committee is authorized by the Board:-

- (1) to investigate any activity within its terms of reference, and the executive directors shall ensure that members of the Committee are provided with full and unlimited access to all books and accounts of the Company;
- (2) to seek any information it requires from any employee, consultant or adviser of the Company, and all employees, consultants and advisers of the Company are directed to co-operate with any request made by the Committee; and
- (3) to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. The Committee shall be provided with sufficient resources to perform its duties.

## **Duties**

The duties of the Committee shall be:-

- (1) to be primarily responsible for making recommendation 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;
- (2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (3) 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (4) to monitor 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 judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:-

- (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from audit;
  - (d) the going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (5) in regard to (4) above:-
- (a) 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
  - (b) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report 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;
- (6) to review the Company's financial controls, internal control and risk management systems;
  - (7) 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;
  - (8) 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;
  - (9) where an internal audit function exists, to ensure coordination 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;
  - (10) to review the group's operating, financial and accounting policies and practices;
  - (11) 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;
  - (12) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
  - (13) to report to the Board on the matters in the Corporate Governance Code;

- (14) to consider other topics, as defined by the Board or required by the Listing Rules from time to time;
- (15) to review arrangements employees 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; and
- (16) to act as the key representative body for overseeing the Company's relations with the external auditor.

20 March 2012