

**SHIS Limited**

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

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**TERMS OF REFERENCE OF  
THE AUDIT COMMITTEE**

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Adopted by resolution of the Board of Directors on 5 January 2017

**SHIS Limited**  
(the “Company”)

**Terms of Reference of the Audit Committee**

**1. Constitution**

- 1.1 The board of directors (“**Directors**”) of the Company (the “**Board**”) resolved to establish an audit committee (the “**Audit Committee**”) on 5 January 2017, with effect from the listing date of the Company.

**2. Functions and Objectives**

- 2.1. The Committee is appointed by the Board with a view to assist the Board in:
- 2.1.1. providing an independent view of the effectiveness of the Group's financial reporting process, internal control and risk management system;
  - 2.1.2. overseeing the audit process; and
  - 2.1.3. performing other duties and other duties and responsibilities as assigned by the Board.

**3. Membership**

- 3.1 The Audit Committee shall comprise non-executive Directors only. Members of the Audit Committee shall be appointed by the Board and shall consist of not less than three members and at least one of whom is an independent non-executive Director with appropriate qualifications of accounting or related financial management expertise as required under Rule 3.10(2) of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The majority of the Audit Committee members shall be independent non-executive Directors.
- 3.2 The Board shall have the right to appoint and remove members of the Audit Committee. The Board shall also have the right to appoint additional members to the Audit Committee.
- 3.3 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his or her ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.

**4. Chairman**

- 4.1 The Board shall appoint a chairman (the “**Chairman**”) for the Audit Committee who

shall be an independent non-executive Director.

- 4.2 In the absence of the Chairman at any meeting of the Audit Committee, the remaining members of the Audit Committee present at any meeting convened in accordance with these terms of reference shall elect among the remaining members of the Audit Committee to act as the Chairman.

## **5. Secretary**

- 5.1. Unless it is agreed otherwise, the company secretary or his/her nominee shall act as the secretary of the Audit Committee.
- 5.2. In the absence of the secretary of the Audit Committee, the members of the Audit Committee present at the meeting shall elect another person with appropriate qualification and experience to act as the secretary.
- 5.3. The chairman of the Audit Committee, in consultation with the financial controller and the secretary of the Audit Committee, should be primarily responsible for drawing up and approving the agenda for each Committee meeting. The chairman of the Audit Committee, with the assistance of the secretary, shall ensure that all Members shall receive sufficient information in a timely manner to enable effective discussion at the Committee meeting. The chairman of the Audit Committee shall, with the assistance of the financial controller, brief all members on issues arising at each Committee meeting.

## **6. Notice**

- 6.1. Unless otherwise agreed in writing by all members of the Audit Committee, a meeting of the Audit Committee shall be called by at least seven days' notice.
- 6.2. A member of the Audit Committee may and, on the request of a member of the Audit Committee, the secretary to the Audit Committee shall, at any time summon a meeting of the Audit Committee. Notice shall be given to each member of the Audit Committee orally in person or in writing or by telephone or by telex or telegram or facsimile transmission or electronic mail at the telephone or facsimile or address or electronic email address from time to time notified to the secretary by such member of the Audit Committee by such other means as the members may from time to time determine. Any notice given orally shall be confirmed in writing.
- 6.3. Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with the meeting papers and other documents which may be required to be considered by the members of the Audit Committee for the purposes of the meeting shall be sent in full to all members of the Audit Committee in a timely manner and at least seven days before the intended date of an Audit Committee meeting or such other period as agreed in writing by all members of the Audit Committee.

## **7. Quorum and Attendees**

- 7.1. The quorum necessary for the transaction of business shall be two. No business shall be transacted at any meeting of the Audit Committee unless a quorum of members is present at the time when the meeting proceeds to business.

- 7.2. If only two members are present in any meeting of the Audit Committee, at least one member must be an independent non-executive Director.
- 7.3. The head of finance of the Company (or any officer(s) assuming the relevant functions but having a different designation), the head of internal audit of the Company (or any officer(s) assuming the relevant functions but having a different designation), other Board members and a representative of the external auditors of the Company may normally be invited to attend meetings of the Audit Committee, however they shall not be counted in the quorum.
- 7.4. Other Directors who are not members of the Audit Committee shall have the right to attend any meetings of the Audit Committee, however they shall not be counted in the quorum.
- 7.5. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee.
- 7.6. The members may attend meetings either in person, by telephone or through other electronic means of communication (which are available to all attended parties).
- 7.7. The Audit Committee may invite any appropriate person to attend meetings as it considers appropriate, including (a) the representative(s) of external auditors; (b) the financial controller; and (c) other Board members.
- 7.8. Only the members shall have the voting powers.

## **8. Frequency of Meetings**

- 8.1. Meetings shall be held at least once every six months to consider the Company's budget, revised budget and interim and annual reports prepared by the management of the Company. The external auditors may request the Chairman to convene meetings, if they consider necessary.

## **9. Minutes of Meetings**

- 9.1. Minutes of the Audit Committee should record in sufficient detail regarding the matters considered by the Audit Committee and decisions reached, including any concerns raised by any member of the Audit Committee or dissenting views expressed. Drafts and final versions of minutes of the Audit Committee 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 the meeting is held.
- 9.2. Minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee and shall be made available for inspection by any member of the Audit Committee and any Director at any reasonable time and on reasonable notice.

## **10. Written Resolutions**

- 10.1. Resolutions may be passed by all members of the Audit Committee in writing.

- 10.2. Resolutions of the Audit Committee shall be passed with a majority of votes.
- 10.3. Resolutions signed by all members of the Audit Committee will be treated valid as if it is passed in the meeting held by the Audit Committee.

## **11. Meeting with External Auditors**

- 11.1. The Audit Committee shall meet with the external auditor of the Company in the absence of the executive Directors of the Company at least once a year.

## **12. Annual General Meetings**

- 12.1. The chairman of the Audit Committee shall endeavour to attend the annual general meetings of the Company and be prepared to respond to any shareholder questions on the Audit Committee's activities. If the chairman of the Audit Committee is unable to attend, a Member of the Audit Committee (who must be an independent non-executive director) shall attend the annual general meeting of the Company. Such person shall be prepared to respond to any shareholder questions on the Audit Committee's activities.

## **13. Duties**

- 13.1. The duties of the Audit Committee shall be to serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, be satisfying themselves as to the effectiveness of the company's internal controls and as to the efficiency of the audits, and shall be:-

### *Relationship with external auditors*

- (a) to be primarily responsible for considering and making recommendations to the Board on the appointment, reappointment, resignation, dismissal and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditors;
- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of external auditors to supply non-audit services. For this purpose, "external auditors" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and

making recommendations as to the steps to be taken;

- (d) to ensure that provisions of non-audit services would not impair the independency and objectivity of the external auditors. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee should 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 external 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

- (e) to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting;
- (f) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports (collectively, the "**Published Financial Reports**"), and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Published Financial 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 and non-adjusted differences resulting from audit or independent review, if any;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (g) regarding (d) above:
  - (i) members of the Audit Committee must liaise with the Board, senior management, the staff responsible for the accounting and financial reporting function of the Company (the "**Accounting Staff**") and the Audit Committee

must meet, at least twice a year, with the Company's auditors; and

- (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Accounting Staff, compliance officer or auditors of the Company;

*Oversight of the Company's financial reporting system, risk management and internal control systems*

- (h) to review the Company'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; including the review of the periodic reports of material and systemic non-compliance incidents submitted by the Executive Director responsible for overseeing the Group's ongoing compliance with relevant laws and regulations in relation to workplace safety and health; and environmental control;
- (i) to discuss the risk management and internal control systems with the management to ensure that management has discharged its duty to have effective systems, including the adequacy of resources, qualifications and experience of Accounting Staff, and their training programmes and budget of the Company's accounting and financial reporting function;
- (j) to consider any findings of major investigations on risk management and internal control matters as delegated by the Board or on its own initiative and management's response;
- (k) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (l) to formulate whistle-blowing policies and systems so that the employees and other persons (e.g. customers and suppliers) who have connections with the Company can, in confidence, report to the Committee concerns about any impropriety relating to the Company; and
- (m) 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 the effectiveness of the internal audit function;
- (n) to review the Company's (together with its subsidiaries from time to time, the "**Group**") financial and accounting policies and practices;
- (o) to review the external auditors' management letter, any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response;

- (p) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (q) to act as the key representative body for overseeing the relations with the external auditor;

Others

- (r) to report to the Board on the matters set out in the code provisions as stated in Appendix 14 of the Listing Rules;
- (s) to consider other topics, as defined by the Board.

## **14. Reporting Procedures**

- 14.1. The Audit Committee shall report to the Board on a regular basis on all matters within its duties and responsibilities. At the next meeting of the Board following a meeting of the Audit Committee, the Chairman shall report the findings and recommendations of the Audit Committee to the Board.
- 14.2. The Chairman, or in the absence of the Chairman, a member of the Audit Committee or failing this, his duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to respond to shareholders' questions.
- 14.3. The Audit Committee should make available these terms of reference, explaining the role of the Audit Committee and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website.
- 14.4. The secretary of the Audit Committee shall record minutes of all duly constituted meetings of the Committee. All minutes shall record in sufficient details the matters considered, decisions reached or recommendations made and any concerns raised by any member including dissenting views.
- 14.5. The secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Audit Committee to all members for comments and records within a reasonable time after each meeting, subject to any legal or regulatory restrictions restricting such circulation or the making of such reports.
- 14.6. The chairman of the Audit Committee who chairs the meetings or other Member who is authorised by the chairman of the Audit Committee to chair the meetings shall report in the forthcoming regular Board meeting any key decisions made and shall table before the Board an index of meetings and issues discussed.

## **15. Authority**

- 15.1. Management shall be obliged to supply to the Audit Committee with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable.
- 15.2. The Audit Committee may exercise the following powers:



- (a) to seek any information it requires from any employee of the Company or its subsidiaries and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend meetings of the Audit Committee and to supply information and answer questions raised by the Audit Committee;
- (b) to monitor whether the Group's management has, in the performance of its duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Listing Rules and other rules and regulations from time to time prescribed by the Stock Exchange and/or laid down by the Board or a committee thereof);
- (c) to investigate all suspected fraudulent acts involving the Group and request management to make investigation and submit reports;
- (d) to review the Group's risk management and internal control procedures and systems;
- (e) to review the performance of the Group's employees in the accounting and internal audit department;
- (f) to make recommendations to the Board for the improvement of the Group's risk management and internal control procedures and systems;
- (g) to request the Board to convene a shareholders' meeting for purposes of revoking the appointment of any Director and to dismiss any employees if there is evidence showing that the relevant Director and/or employee has failed to discharge his duties properly;
- (h) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the external auditors of the Group;
- (i) to obtain outside legal or other independent professional advice and to secure the attendance of independent third parties with relevant experience and expertise, if it considers this necessary; and
- (j) where there is any disagreement between the Audit Committee and the Board on the selection, appointment, resignation or dismissal of the external auditors which cannot be resolved, to report its own recommendation on such matters to the shareholders in the Corporate Governance Report in the Annual Report.

## **16. Continuing applications of the articles of association of the Company and "A Guide for Effective Audit Committee"**

- 16.1. The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and not inconsistent with the provisions of these terms of reference shall apply, mutatis mutandis, to regulate the meetings and proceedings of the Audit Committee.
- 16.2. The provisions of "A Guide for Effective Audit Committee" published by the Hong

Kong Society of Accountants (as it was then known) in February 2002 shall, to the extent not inconsistent with the provisions of this terms of reference, be deemed to be incorporated into these this terms of reference, mutatis mutandis.

## **17. Powers of the Board**

- 17.1. The Board may, subject to compliance with the articles of association of the Company and the Listing Rules, amend, supplement and revoke the provisions of this terms of reference and any resolution passed by the Audit Committee provided that no amendments to and revocation of the provision of this terms of reference and the resolutions passed by the Audit Committee shall invalidate any prior act and resolution of the Audit Committee which would have been valid if such provisions or resolutions had not been amended or revoked.

## **18. Interpretation**

- 18.1. Interpretation of these terms of reference shall belong to the Board.

*“Senior management” refers to the same category of persons as referred to in the Company’s annual report. It is the responsibility of the directors of the Company to determine which individual or individuals constitute senior management. Senior management may include directors of subsidiaries, heads of divisions, departments or other operating units within the group as, in the opinion of the directors, is appropriate.*