



# **EVA Precision Industrial Holdings Limited** **億和精密工業控股有限公司**

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

(Stock code: 838)

## **Terms of Reference for the Audit Committee (the “Committee”) of the Company**

### **Constitution**

1. The Committee is established pursuant to a resolution passed by the board of directors (the “**Directors**”) of the Company (the “**Board**”) at its meeting held on 20 April 2005. Its terms of reference are revised and adopted by written resolutions passed by the Board dated 12 March 2012.

### **Membership**

2. The members of the Committee shall be appointed by the Board from amongst the non-executive Directors of the Company and the Committee shall consist of not less than 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 Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”). The majority of members must be independent non-executive Directors of the Company.
3. The chairman of the Committee shall be appointed by the Board and must be an independent non-executive Director.
4. The appointment of the members of the Committee may be revoked, and replacement or additional members may be appointed to the Committee by resolutions passed by the Board.

### **Attendance at meetings**

5. The finance director of the Company (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings. The Committee may invite any appropriate person to attend meetings of the Committee. Other Board members shall also have the right of attendance.
6. The company secretary of the Company shall be the secretary of the Committee (the “**Secretary**”) unless another person is appointed as the Secretary pursuant to paragraph 7 below.

7. The Committee may from time to time appoint any person (other than the company secretary of the Company) with appropriate qualification and experience as the Secretary.

### **Frequency of and proceedings of meetings**

8. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.
9. Unless otherwise agreed by all members of the Committee, a meeting of the Committee shall be called by at least seven days' notice.
10. A Committee member may and, on the request of a Committee member, the Secretary shall, at any time summon a meeting of the Committee. Notice shall be given by the Secretary to each member of the Committee in person orally or in writing or by telephone or by facsimile transmission or by electronic communication or in such other manner as the Committee may from time to time determine. Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Committee for the purposes of the meeting.
11. The quorum of the Committee meeting shall be two members of the Committee.
12. Members of the Committee may participate in any meeting of the Committee by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.
13. Resolutions of the Committee at any meetings shall be passed by a majority of votes of the members present.
14. A resolution in writing signed by all the members of the Committee shall be as valid and effective as if it had been passed at a meeting of the Committee duly convened and held.

### **Authority**

15. The Committee may exercise the following powers:
  - (a) to seek any information it requires from any employee of the Company and its subsidiaries (together, the “**Group**”) and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;

- (b) to monitor whether the Group's management has, in the performance of their 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 determined by the Board or a committee thereof;
- (c) to investigate all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
- (d) to review the Group's internal control procedures and system;
- (e) to review the performance of the Group's employees in the accounting and financial reporting department;
- (f) to make recommendations to the Board for the improvement of the Group's internal control procedures and system;
- (g) to request the Board to convene a shareholders' meeting for purposes of revoking the appointment of any Director of the Company and to dismiss any employees if there is evidence showing that the relevant Director and/or employee has failed to perform his/her duties properly;
- (h) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group; and
- (i) 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.

## **Duties**

16. The duties of the Committee shall be:

- (a) 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;
- (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 Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;
- (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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- (d) 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 judgements contained in them. In reviewing these reports before submission to the Board, the Committee should 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;
  - (v) compliance with accounting standards;
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
  - (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group;
  - (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions; and
  - (ix) the cashflow position of the Group;
- (e) In regard to (d) above:
  - (i) 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
  - (ii) 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;
- (f) to discuss problems and reservations arising from the interim and final audits, and any matters the external auditor may wish to discuss (in the absence of management where necessary);

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) 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;
- (i) 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;
- (j) 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;
- (k) to review the Group's financial and accounting policies and practices;
- (l) to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response;
- (m) 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. The Committee should ensure that proper arrangements are in place for 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 relations with the external auditor;
- (o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (p) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (q) to review and monitor the training and continuous professional development of Directors and senior management;
- (r) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (s) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

- (t) to review the Company's compliance with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report;
- (u) to report to the Board on the matters set out in these terms of reference; and
- (v) to consider other topics, as defined or assigned by the Board from time to time.

### **Reporting procedures**

- 17. Full minutes of meetings of the Committee should be kept by the Secretary. Draft and final versions of minutes of the meetings of the Committee shall be sent to all members of the Committee for their comment and records within a reasonable time after the meeting.
- 18. The Secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board.

### **Alternate Committee members**

- 19. A Committee member may not appoint any alternate.

### **Continuing application of the articles of association of the Company**

- 20. The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

### **Powers of the Board**

- 21. The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Corporate Governance Code), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

### **Publication of the Terms of Reference**

- 22. These terms of reference shall be made available to any person without charge upon request and shall be posted on the website of the Company and on the website of the Stock Exchange.

*Note: In these terms of reference, "senior management" refers to the same persons referred to in the Company's annual report and required to be disclosed under paragraph 12 of Appendix 16 to the Listing Rules.*