



**ERNEST
BOREL**
1856

ERNEST BOREL HOLDINGS LIMITED

依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

(the “Company”)

**Terms of reference of the Audit Committee (the “Committee”)
of the Board of Directors (the “Board”) of the Company**

1. Constitution

1.1 The Committee is established pursuant to a resolution passed by the Board at its meeting held on 24 June 2014 with its responsibilities:

- (a) to assure that adequate internal controls are in place and followed;
- (b) to assure that appropriate accounting principles and reporting practices are followed;
- (c) to provide liaison among the shareholders, management, the authorized independent auditors (the “**External Auditors**”), internal auditors or any person responsible for internal audit function (the “**IA People**”);
- (d) to consider the qualifications and independence of the External Auditors;
- (e) to satisfy itself as to compliance with any applicable legal requirements;
- (f) to review audit and control-related corporate representations made to External Auditors, IA People and to the shareholders of the Company;
- (g) to ensure itself that good accounting and audit policies, internal control, ethics of conduct and proper business ethics have been followed;
- (h) to contribute towards a climate of discipline, risk management awareness and control within the Company and its subsidiaries (the “**Group**”); and
- (i) to implement any other duties as delegated by the Board.

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board from amongst the directors of the Company and shall consist of not less than three members, all of whom shall be non-executive directors and at least one of the Committee members shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rules 3.10(2) and 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The majority of the Committee members shall be independent non-executive directors of the Company.
- 2.2 The Chairman of the Committee (the “**Chairman**”) shall be appointed by the Board and shall be an independent non-executive director.
- 2.3 A former partner of the Company’s existing External Auditor is prohibited from acting as a Committee member for a period of 1 year as calculated under the Listing Rules and applicable auditor independence rules.
- 2.4 The appointment of the members of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee.
- 2.5 The constitution of the Committee shall comply with the requirements of the Listing Rules as amended from time to time.

3. Frequency and proceedings of meetings

- 3.1 The Committee should meet at least two times per year. The Chairman may convene additional meetings at his discretion.
- 3.2 The Committee shall meet with the External Auditors at least twice a year. At least one of the said meetings should be held in the absence of management.
- 3.3 **Notice of Meeting**
 - (a) Unless otherwise agreed by all the Committee members, a Committee meeting shall be convened by at least seven days’ notice.
 - (b) A Committee member may at any time summon a Committee meeting.
 - (c) Notice shall be given to each Committee member in person orally or in writing or by telephone or by facsimile transmission or email at numbers or addresses from time to time notified to the secretary of the Company by such Committee member or in such other manner as the Committee members may from time to time determine.

- (d) Any notice given orally shall be followed by confirmation in writing before the Committee meeting.
- (e) 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 Committee meeting. Such agenda and other documents should be sent in a timely manner and at least 3 days before the intended date of a meeting (or other period agreed by the Committee).

3.4 The quorum for the Committee meeting shall be two members of the Committee.

3.5 The Secretary of the Company shall act as the secretary of the Committee.

3.6 Other Board members shall also have the right of attendance.

4. Written resolutions

Written resolutions may be passed by all Committee members in writing. This provision is without prejudice to any requirement under the Listing Rules for a Board or Committee meeting to be held.

5. Alternate Committee members

Except for the situation as specified in clause 7.21 below, a Committee member may not appoint any alternate.

6. Authorities

6.1 The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

6.2 The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

6.3 The Committee should be provided with sufficient resources to perform its duties.

7. Duties

The duties of the Committee shall be to:

- 7.1 serve as a focal point for communication between other directors, the External Auditors and the IA People as regards their duties relating to financial and other reporting, internal controls, and such other matters as the Board determines from time to time.
- 7.2 assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial and other reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group, and as to the adequacy of the external and internal audits.
- 7.3 be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the External Auditors, and approve the remuneration and terms of engagement of the External Auditors, and any questions of its resignation or dismissal;
- 7.4 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 External Auditors 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. Procedures to review and monitor the independence of External Auditors may include:
 - (i) consider all relationships between the Group and the External Auditors (including non-audit services);
 - (ii) obtain from the External Auditors annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and
 - (iii) meet with the External Auditors, at least once annually, in the absence of management, to discuss matters relating to audit fees, any issues arising from the audit and any other matters the External Auditors may wish to raise.

- 7.5 develop and implement policy on engaging the External Auditors to supply non-audit services. For the purpose of this clause, “External Auditors” 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 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. The Committee should ensure that the External Auditors’ provision of non-audit services does not impair its independence or objectivity. When assessing the External Auditors’ independence or objectivity in relation to the provision of non-audit services, the Committee may wish to consider:
- (i) whether the skills and experience of the External Auditors 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 audit because the External Auditors provide 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 External Auditors; and
 - (iv) criteria for compensation of the individuals performing the audit.
- 7.6 review with External Auditors and IA People, the Group’s management, the adequacy of the Group’s policies and procedures regarding internal controls (including financial, operational and compliance controls) and any statement by the directors to be included in the annual accounts prior to endorsement by the Board;
- 7.7 monitor integrity of the Company’s financial statements, annual report and accounts, half-year reports and, if prepared for publication, quarterly report (including Directors’ Report, Chairman’s Statement and management discussion and analysis), and review significant financial reporting judgments 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 the audit;

- (vi) the going concern assumption and any qualifications;
- (v) compliance with accounting and auditing standards; and
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

7.8 regarding clause 7.7 above:

- (i) members of the Committee should liaise with the Board and senior management of the Company and the Committee must meet, at least twice a year, with the External 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, and should give due consideration to any matters that have been raised by the Company's staff responsible for accounting and financial reporting function, the compliance officer of the Company or External Auditors;

7.9 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;

7.10 consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to those findings;

7.11 where an internal audit function exists, ensure co-ordination between IA People and the External Auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;

7.12 review the Group's financial and accounting policies and practices;

7.13 review the External Auditor's management letter, any material queries raised by the External Auditor to management about accounting records, financial accounts or system of control and management's response;

7.14 act as the key representative body for overseeing the Company's relations with the External Auditor;

- 7.15 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;
- 7.16 ensure that the Board will provide a timely response to the issues raised in the External Auditor's management letter;
- 7.17 report to the Board on the matters set out in the Code Provision C.3 of the Appendix 14 (Corporate Governance Code and Corporate Governance Report) to the Listing Rules;
- 7.18 review the Company's financial controls, internal control and risk management systems;
- 7.19 consider agreeing with the Board the Company's policies on hiring employees or former employees of the External Auditors and monitoring the application of these policies. The Committee should then be in a position to consider whether there has been or appears to be any impairment of the External Auditor's judgment or independence for the audit;
- 7.20 where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the External Auditors, the Company should include in the Corporate Governance Report as required under the Listing Rules a statement from the Committee explaining the Committee's recommendation and the reasons why the Board has taken a different view;
- 7.21 attend annual general meetings of the Company, and be available to answer questions at such annual general meetings. (Note: the Chairman of the Committee shall attend annual general meetings of the Company; and in the Chairman's absence, another member of the Committee or failing this, the Chairman's duly appointed delegate, shall attend). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. The Company's management should ensure the External Auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence;
- 7.22 consider other topics as defined by the Board.

8. Reporting Procedures

- 8.1 Full minutes of the meetings of the Committee (which should record in sufficient detail the matters considered and decisions reached, including any concerns raised by directors or dissenting views expressed) shall be kept by a duly-appointed secretary of the meeting and shall be open for inspection at any reasonable time on reasonable notice by any director of the Company. The duly-appointed secretary of the meeting shall circulate the draft and final version of minutes of meeting to all members of the Committee for their comment and records within a reasonable time after the meeting is held, and circulate the final version of minutes of meeting to all directors of the Company within a reasonable time after the meeting is held. The procedures set out in this clause 8.1 shall also apply to the written resolutions of the Committee as referred to in clause 4 above.
- 8.2 The Chairman shall report to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

9. Continuing application of the articles of association of the Company

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.

10. Powers of the Board

The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including Appendix 14 (the Corporate Governance Code and Corporate Governance Report) to the Listing Rules), 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.

11. Language

If there is any inconsistency between the English and Chinese versions of these terms of reference, English version shall prevail.

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