



HENGXIN
恒 芯 中 國

Heng Xin China Holdings Limited 恒 芯 中 國 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 8046)

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

(Approved by the Board on 30 September 2002 and last reviewed on 26 March 2012)

1. Constitution

- 1.1 The board of directors (the “Board”) of Heng Xin China Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) has resolved to establish a committee of the Board to be known as the Audit Committee.

2. Membership

- 2.1 Members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company, on the recommendation of the Nomination Committee in consultation with the chairman of the Audit Committee. The Audit Committee shall consist of not less than three members, a majority of whom should be independent non-executive directors.

- 2.2 A former partner of the Company’s existing auditing firm is prohibited from acting as a member of the Audit Committee for a period of 1 year commencing on the date of his ceasing:—

- (a) to be a partner of the auditing firm; or
- (b) to have any financial interest in the auditing firm,

whichever is the later.

- 2.3 The chairman of the Audit Committee shall be appointed by the Board and should be an independent non-executive director.

- 2.4 The Board may, from time to time, at their discretion, amend the terms of reference or adopt new terms of reference or change the composition of the members of the Audit Committee.

* For identification purposes only

3. Secretary

3.1 The Company Secretary or their nominee shall act as the secretary of the Audit Committee.

4. Quorum

4.1 The quorum necessary for the transaction of business shall be any two members. 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.

5. Attendance at meetings

5.1 The Chief Financial Officer (“CFO”), the head of the Finance Department and/or the financial controller of the Company shall normally attend meetings. However, at least once a year the Audit Committee shall meet with the external and internal auditors without executive Board members present.

5.2 Meeting could be held in person, by telephone or by video conference. Members of the Audit Committee may participate in a meeting by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting are capable of hearing each other.

5.3 Without prejudice to any requirement under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) or the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Main Board Listing Rules”) (as the case may be), a resolution in writing signed by all the members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.

6. Frequency of meetings

6.1 Meetings shall be held not less than 4 times a year in accordance with the GEM Listing Rules or 2 times a year in accordance with the Main Board Listing Rules (as the case may be). The external auditors may request a meeting if they consider that one is necessary.

7. Notice of meetings

7.1 Meetings of the Audit Committee shall be summoned by any of its members or by the Company Secretary.

7.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Audit Committee, any other person required to attend and all other non-executive directors, at least 2 working days prior to the date of the meeting.

7.3 The chairman, in consultation with the CFO and the secretary of the Audit Committee, should be primarily responsible for drawing up and approving the agenda of each Audit Committee meeting.

8. Authority

8.1 The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.

- 8.2 The Audit Committee is authorized by the Board, at the expenses of the Company, 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.
- 8.3 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Audit Committee shall prepare a statement, for inclusion in the Company's Corporate Governance Report, explaining its recommendations. The Board shall include in the same report the reason(s) why the Board takes a different view.
- 8.4 The Audit Committee is to be provided with sufficient resources to discharge its duties.

9. Duties

- 9.1 The duties of the Audit Committee shall be:

Relationship with the Company's auditor

- (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 the terms of engagement of the external auditor; and any questions of resignation or dismissal of that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services, For this purpose, external auditor 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.

Review of financial information

- (d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts and interim report, and to review significant financial reporting judgements contained in them. In reviewing the interim and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards, and
 - (vi) compliance with GEM Listing Rules or Main Board Listing Rules (as the case may be) and other legal requirements in relation to financial reporting;

- (e) in regard to (d) above, :—
 - (i) members of the Audit Committee must liaise with the Board and senior management and the Audit Committee must meet with the Company’s auditor at least once a year; 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 Company’s staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the financial reporting system and internal control procedures

- (f) to review the Company’s financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management’s response to these findings;
- (i) 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;
- (j) to review the Group’s financial and accounting policies and practices;
- (k) to review the external auditor’s management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management’s response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (m) to report to the Board on the matters set out in the relevant code provisions set out in the Code on Corporate Governance Practices in Appendix 15 of the GEM Listing Rules or Appendix 14 of the Main Board Listing Rules (as the case may be); and
- (n) to consider other topics, as defined by the Board.

10. Procedures

- 10.1 The chairman, with the assistance of the CFO or the financial controller of the Company shall ensure that all members shall have sufficient information in a timely manner to enable effective discussion at an Audit Committee meeting and be briefed of the issues arising at each Audit Committee meeting.
- 10.2 The secretary shall record minutes of all duly constituted meetings of the Audit Committee. All minutes shall record in sufficient detail the matters considered, decisions reached or recommendations made and any concerns raised by any member, the external auditor including dissenting views of any member.
- 10.3 The secretary of the Audit Committee 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.
- 10.4 The chairman shall report in the forthcoming regular board meeting any key decisions made and shall table before the Board an index of meetings and issued discussed.

11. Annual General Meeting

- 11.1 The chairman of the Audit Committee shall endeavor to attend the Annual General Meeting of the Company and be prepared to respond to any shareholder questions on the Audit Committee's activities.
- 11.2 If the chairman of the Audit Committee is unable to attend an Annual General Meeting of the Company, he shall arrange for another member of the Audit Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any shareholder questions on the Audit Committee's activities.

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