



# SAU SAN TONG HOLDINGS LIMITED

## 修身堂控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8200)

## Terms of Reference of the Audit Committee

### 1 Constitution

1.1 The board of directors (“**Directors**”) (the “**Board**”) of Sau San Tong Holdings Limited (the “**Company**” which together with its subsidiaries, the “**Group**”) resolved to establish an audit committee (the “**Committee**”).

### 2 Membership

2.1 The Committee shall comprise non-executive Directors only. Members of the 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 Directors with appropriate qualifications of accounting or related financial management expertise as required under Rule 5.02(2) of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “**GEM Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Exchange**”). The majority of the Audit Committee members shall be independent non-executive Directors.

2.2 A former partner of the Company's existing auditing firm shall be prohibited from acting as the Committee member for a period of one (1) year from the date of his ceasing:

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

whichever is later.

2.3 The Board shall have the right to appoint and remove members of the Committee. The Board shall also have the right to appoint additional members to the Committee. An appointment of Committee member shall be automatically revoked if such member ceases to be a member of the Board.

### 3 Chairman

3.1 The Board shall appoint a chairman (the “**Chairman**”) of the Committee who shall be an independent non-executive Director.

3.2 In the absence of the Chairman at any meeting of the Committee, the remaining members of the Committee present at any meeting convened in accordance with these terms of reference shall elect amongst the remaining independent non-executive Director of the Committee to act as the Chairman.

## **4      Secretary**

- 4.1      The Company secretary shall act as the secretary of the Committee.
- 4.2      In the absence of the secretary of the Committee, the members of the Committee present at the meeting shall elect another person to act as the secretary.

## **5      Proceedings of the Committee Meetings**

Unless otherwise specified hereunder, the provisions contained in the Company's Articles of Association (as amended from time to time) for regulating meetings and proceedings of directors shall apply to the meetings and proceedings of the Audit Committee.

### **5.1      Quorum**

- 5.1.1      A quorum shall be two Committee members. If only two Committee members are in attendance, then both Committee members shall be independent non-executive Directors. If more than two Committee members are in attendance, then a majority of the Committee members shall be independent non-executive Directors.
- 5.1.2      The Secretary shall, at the beginning of each meeting, ascertain and record the existence of any conflicts of interest and minute them accordingly. The relevant member of the Committee shall not be counted towards the quorum and he must abstain from voting on any resolution of the Committee in which he or any of his associates has a material interest, unless the exceptions set out in note 5 to Appendix 3 to the GEM Listing Rules apply.

### **5.2      Notices of meetings**

- 5.2.1      Unless otherwise agreed by all members of the Committee, a meeting of the Committee shall be called by at least seven days' notice.
- 5.2.2      The notice of the meeting shall be sent to each member of the Committee, and to any other person invited to attend. Irrespective of the length of notice being given, attendance of a Committee member at a meeting constitutes a waiver of such notice unless the Committee member attending the meeting attends for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the grounds that the meeting has not been properly convened.
- 5.2.3      Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of the Committee members, the external auditor or the Company's internal auditor.
- 5.2.4      An agenda of items to be discussed, together with supporting papers, shall be sent to the Committee members and to other attendees within a reasonable period of time prior to the date of the meeting.
- 5.2.5      Any Committee member shall be entitled, by notice to the secretary of the Committee, to include other matters relevant to the functions of the Committee in the agenda of the Committee meeting.

### **5.3      Meetings**

- 5.3.1      The Committee shall meet with the external auditor at least twice a year without the executive board members present.

- 5.3.2 The Committee shall meet at least four times a year.
- 5.3.3 The Committee shall meet at such times as the Chairman shall require.
- 5.3.4 The Committee may invite such other persons (e.g. the Chief Executive Officer, the heads of finance department, the head of internal audit and engagement partner of external auditor) to its meetings as it considers necessary. Other board members shall also have the right of attendance; however they shall not be counted in the quorum.
- 5.3.5 Meetings could be held in person, by telephone or by video conference. Committee members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in they are capable of hearing each other.

#### **5.4 Minutes of Meetings**

- 5.4.1 Minutes of the Committee should record in sufficient detail regarding the matters considered by the Committee and decisions reached, including any concerns raised by any member of the Committee or dissenting views expressed. Drafts and final versions of minutes of the Committee meetings should be sent to all committee members for their comment and records within a reasonable time after the meeting.
- 5.4.2 Full minutes of the Committee meetings shall be kept by the Secretary and shall be made available for inspection by any member of the Committee and any Director at any reasonable time and on reasonable notice.

### **6 Duties**

The authority of the Committee is derived from the Board; therefore the Committee is obliged to report to the Board on their decisions and recommendations. The duties of the Committee are:

#### **6.1 Relationship with the External Auditor**

- (a) To be primarily responsible for making recommendations 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 shall discuss with the external 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 of all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee shall report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

6.2 *Review of the Company's financial information*

(a) To monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee shall focus particularly on:

- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments resulting from the audit;
- (iv) going concern assumptions and any qualifications;
- (v) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;
- (vi) 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;
- (vii) any significant or unusual items that are, or may need to be, reflected in such reports and accounts;
- (viii) the cashflow position of the Group;
- (ix) compliance with accounting standards; and
- (x) compliance with the GEM Listing Rules and legal requirements in relation to financial reporting;

and to provide advice and comments thereon to the Board;

(b) Regarding to (a) above:

- (i) the Committee members should liaise with the Board and senior management of the Group and the Committee must meet, at least twice a year, with the external auditor; 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;

(c) to discuss problems and reservations arising from the final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary)

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

(a) 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 Company's risk management and internal control system;

- (b) To discuss the risk management and the internal control systems 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;
- (c) To consider major investigations findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (d) Where an internal audit function exists, to ensure co-ordination between the internal auditor and the external auditor, 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;
- (e) To review the group's financial and accounting policies and practices;
- (f) To review the external auditor's management letter, any material queries raised by the external auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (g) To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (h) To report to the Board on the matters set out herein and matters required to be performed by the Committee under the Code of Corporate Governance Practices of the GEM Listing Rules and its revisions implemented from time to time;
- (i) To review arrangements the 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;
- (j) To act as the key representative body for overseeing the Company's relations with the external auditor;
- (k) To review annually these terms of reference and their effectiveness in the discharge of its duties and to make recommendation to the Board any changes it considers necessary;
- (l) To consider other topics, as defined by the Board; and
- (m) To make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Exchange's website and the Company's website.

## 7 Annual General Meeting

- 7.1 The Chairman of the Committee shall attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Committee's activities. In his absence, one other member of the committee or failing this, his duly appointed delegate, should attend.

## **8 Authority**

The Committee is authorized by the Board to exercise the following powers:

- 8.1 to investigate any activity within its terms of reference and all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
- 8.2 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 GEM Listing Rules and other rules and regulations from time to time determined by the Board or a committee thereof);
- 8.3 to seek any information it requires from any employee of the Group and all employees of the Group are directed to co-operate with any request made by the Committee;
- 8.4 to obtain outside legal or other independent professional advice at the expenses of the Company on any matters within these terms of reference as it considers necessary and to secure the attendance of outsiders with relevant experience and expertise at its meetings, if it considers this necessary;
- 8.5 the Committee should be provided with sufficient resources to perform its duties;
- 8.6 to make recommendations to the Board for the improvement of the Group's risk management and internal control systems;
- 8.7 where there is any disagreement between the 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; and
- 8.8 to exercise such powers as the Committee may consider necessary and expedient so that their duties under section 6 above can be properly discharged.

## **9 Others**

- 9.1 In the event of discrepancies between the Chinese and the English versions, the English version shall prevail.

(Adopted by the Company pursuant to the Board's resolution passed on 29 March 2012 and revised on 31 March 2016)