



CONTINENTAL
HOLDINGS LIMITED
恒和珠寶集團有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00513)

TERMS OF REFERENCE
OF
AUDIT COMMITTEE

Revised and adopted on 31 December 2015

1. Constitution

The board of directors (the “Board”) of Continental Holdings Limited (the “Company”) hereby constitutes and establishes an audit committee (the “Audit Committee”) with authority, responsibilities, and specific duties as described below.

2. Audit Committee

2.1 Membership

2.1.1 Members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company only and shall consist of not less than three members, at least one of whom is an independent non-executive director with appropriate qualifications of accounting or related financial management expertise as required in 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 members of the Audit Committee members should be independent non-executive directors.

2.1.2 The Chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive director.

2.1.3 The Company Secretary of the Company or a nominee shall act as the Secretary of the Audit Committee.

- 2.1.4 The appointment of the members and secretary of the Audit Committee may be revoked, or additional members may be appointed to the Audit Committee by separate resolutions passed by the Board.

3. Proceedings of the Audit Committee

3.1 Notice

- 3.1.1 Unless otherwise agreed by all the Audit Committee members, a meeting of the committee shall be called by at least seven (7) days' notice.

- 3.1.2 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 in person orally or in writing or by telephone or by email or by facsimile transmission at the telephone or facsimile or address or email address from time to time notified to the secretary by such member of the Audit Committee or in such other manner as the members of Audit Committee may from time to time determine.

- 3.1.3 Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.

- 3.1.4 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 Audit Committee for the purposes of the meeting.

3.2 Quorum

The quorum of a meeting shall be two members of the Audit Committee.

3.3 Attendance of meetings by non-members

The financial controller, the head of internal audit of the Company (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors of the Company shall normally attend meetings of the Audit Committee. The executive directors shall also have the right of attendance. However, at least twice a year the Audit Committee shall meet with the external auditors of the Company in the absence of the executive directors of the Company.

3.4 Frequency of meetings

- 3.4.1 The Audit Committee shall hold at least once every six months to review and discuss the interim and annual financial statements of the Company. Additional meeting of the Audit Committee may be held as and when required.
- 3.4.2 The external auditors may request the Chairman of the Audit Committee to convene a meeting, if they consider that one is necessary.

4. Minutes of meetings

- 4.1 Draft and final versions of minutes of Audit Committee meetings shall be sent to all Audit Committee members for their comment and records within a reasonable time after the meeting.
- 4.2 Minutes of the Audit Committee shall be kept by the company secretary and shall be available for inspection by any member of the Audit Committee or the Board at any reasonable time on reasonable notice.

5. Written resolutions

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

6. Alternate members

A member of the Audit Committee may not appoint any alternate.

7. Authority

The Audit Committee may exercise the following powers:

- (a) to seek any information it requires from any employee of the Company (together with its subsidiaries from time to time, the “**Group**”) 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 and monitor the effectiveness of the Group's risk management and internal control 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 systems;
- (g) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group;
- (h) 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.
- (i) The Audit Committee should be provided with sufficient resources to perform its duties.

8. Duties

The duties of the Audit Committee shall include, without limitation:

Relationship with external auditors

- (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 accounting standards. 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 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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) to act as the key representative body for overseeing the Company’s relations with the external auditor.

Review of the Company’s financial information

- (e) 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 Audit 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; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (f) Regarding (e) above:
 - (i) members of the Audit Committee should liaise with the Board and senior management 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 the reports 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;

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

- (g) to review the Company's financial controls, risk management and internal control systems;
- (h) to discuss the risk management and internal control systems with management and to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial report function;
- (i) to consider any major investigation 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;
- (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 auditor to management about accounting records, financial accounts or systems of control and management's response;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) 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. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action;

Others

- (o) to report to the Board on the matters in the code provisions as stated in Appendix 14 of the Listing Rules; and
- (p) to consider other topics, as defined by the Board.

9. Veto rights of the Audit Committee

The Audit Committee has the following veto rights. The Group cannot implement any of the following matters which have been vetoed by the Audit Committee:

- (a) to approve any connected transaction within the meaning of the Listing Rules which requires an independent shareholders' vote (unless the approval of such connected transaction is made conditional on the obtaining of the approval of the independent non-executive directors and the independent shareholders); and
- (b) to employ or dismiss the Group's financial controller or the internal audit manager.

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

- 10.1 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 Regulations shall apply, *mutatis mutandis*, to regulate the meetings and proceedings of the Audit Committee.
- 10.2 The provisions of "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants (as it was then known) in February 2002 and has been adopted by the Company, to the extent not inconsistent with the provisions of these Regulations, be deemed to be incorporated into these Regulations, *mutatis mutandis*.

11. Powers of the Board

The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules or, if adopted by the Company, the Company's own code of corporate governance practice) amend, supplement and revoke these Regulations and any resolution passed by the Audit Committee provided that no amendments to and revocation of these Regulations 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 these Regulations or resolution had not been amended or revoked.

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