



BGMC International Limited

璋利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(the “Company” or “BGMC”)

(Stock Code: 1693)

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

1.1 Composition

- 1.1.1 The Committee will be composed of **at least three (3)** Non-Executive Directors and a majority of whom shall be Independent Non-Executive Directors (the “INEDs”) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).
- 1.1.2 The chairman and members of the Committee shall be appointed by the Board, in consultation with the chairman of the Committee (the “Chairman”).
- 1.1.3 The Board shall appoint one of the INEDs of BGMC to be the Chairman.
- 1.1.4 All the Committee members shall be Non-Executive Directors and a majority of whom shall the INEDs under the Listing Rules.
- 1.1.5 **At least one (1)** of whom is an INED with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

1.2 Quorum

- 1.2.1 **Three (3) members with two (2) INEDs** shall constitute a quorum.
- 1.2.2 Decisions shall be determined by a simple majority and, in the event of a tie, the Chairman shall have the casting vote. Proceedings of meetings of the Committee shall be governed by the provisions of the Articles of Association of the Company.

1.3 Reporting Procedures and Frequency of Meetings

- 1.3.1 In the absence of the Chairman and/or an appointed deputy at any meeting, the Committee will elect one of the members present to act as chairman of the meeting.
- 1.3.2 The Chairman generally attends the annual general meeting to answer shareholder questions on the Committee's activities. In his/her absence, the chairman of the Board will invite another member of the Committee or failing this his/her appointed delegate, to attend.
- 1.3.3 Only members of the Committee have a right to attend meetings; however other members of the Board or management may be invited to attend, as appropriate.
- 1.3.4 Minutes will be taken for all meetings and kept by the secretary of the Committee (the "**Secretary**") and, when the Chairman deems appropriate, tabled at meetings of the Board. Draft and final versions of minutes of the meetings be sent to all Committee members for their comment and records, within a reasonable time after the meeting. The Chairman will present an oral report to the Board on the activities and decisions of the Committee.
- 1.3.5 External auditors will be invited to attend meetings on a regular basis.
- 1.3.6 The Committee shall meet **at least four (4) times per year** at appropriate times in the reporting and audit cycle and otherwise as required. Meetings shall be summoned by the Secretary.
- 1.3.7 Meetings can be convened at the request of the Chairman, members or the external or internal auditors.
- 1.3.8 The Head of Internal Audit or his/her nominee shall be the Secretary. Committee meeting dates shall be agreed in advance affording adequate notice for maximum participation. Papers prepared for the Committee may be sent (by appropriate medium) between meeting dates and decisions or recommendations solicited and received between meetings, where necessary, to avoid delays in the decision-making processes.
- 1.3.9 The Chairman shall report regularly and formally to the Board, at the next meeting of the Board following a meeting of the Committee, on matters within its remit, and 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.
- 1.3.10 At least annually, the Committee present a report to the Board which addresses the work and findings of the Committee during the year.
- 1.3.11 Where there is disagreement between the Committee and the Board, adequate time be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreement cannot be resolved, the Committee has the right to report on the issue to the shareholders of the Company as part of the report on its activities.

1.4 Duties, Powers And Functions

1.4.1 Financial Reporting

The Committee shall monitor the integrity of the financial statements of the BGMC Group, including its annual, interim, and quarterly reports (if any) and any other formal announcement relating to its financial performance. The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to accounting policies and practices on a year on year basis and across the BGMC Group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether BGMC Group has followed appropriate accounting and auditing standards and made appropriate estimates and judgments, considering the views of the external auditors;
- (d) the clarity of disclosure in the BGMC Group's financial reports and the context in which statements are made;
- (e) any significant financial reporting issues and judgments and all material information presented with the financial statements, such as significant adjustments resulting from the audit, and the going concern assumptions and any qualifications; and
- (f) any significant or unusual items that are, or may need to be, reflected in financial reports and accounts, and must give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance function or auditor (internal or external).

1.4.2 Internal Controls

The Committee shall:

- (a) monitor, and review with management, compliance, external auditor and internal auditor, the adequacy and effectiveness of the Company's policies and procedures regarding internal controls (including financial, operational, IT, risk management, information security, outsourcing, legal and compliance controls), and any statement concerning internal controls to be included in the annual accounts prior to endorsement by the Board; and
- (b) discuss with management the scope and quality of systems of internal control and review annually 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 accounting and financial reporting function, and their training programmes and budget.

1.5 Whistleblowing, Fraud Prevention and Financial Crime

The Committee shall:

- (a) review and approve BGMC Group's assessment of the corruption risks to which it is subject and the framework of controls put in place to mitigate those risks, including but not limited to the relevant Anti-Bribery and Anti-Corruption Policy described in the Employee Handbook;
- (b) consider corruption risk within the framework of the risk management and compliance policy statement;
- (c) monitor and oversee compliance with the anti-corruption policy described in the Employee Handbook, including reviewing the BGMC's Anti-Bribery and Anti-Corruption Policy on an annual basis to ensure that they remain adequate for the purposes of the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong) and any other applicable legislation;
- (d) where appropriate, seek advice or information from the Chief Executive Officer or any other person it deems necessary regarding BGMC Group's policy on anticorruption or compliance with them;
- (e) report on the Committee's business to the Board with such recommendations as the Committee may deem appropriate in relation to anti-corruption;
- (f) review BGMC Group's arrangements for its employees or those who deal with BGMC Group (e.g., suppliers) to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure appropriate follow up action; and
- (g) review BGMC Group's procedures for detecting internal fraud, findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations.

1.6 Internal Audit

The Committee shall:

- (a) monitor and review annually the effectiveness of BGMC Group's internal audit function, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget, ensure co-ordination between the internal and external auditors and ensure that the internal audit function has appropriate standing within the Company and within the BGMC Group;
- (b) review and approve the annual internal audit plan and discuss with the internal auditor any significant findings and recommendations arising from the internal audit activities;
- (c) review and monitor management's responsiveness to the findings and recommendations of the internal auditors;
- (d) meet with the Head of Internal Audit:
 - (i) at least once every year, to discuss their remit and any issues arising from the internal audits carried out. Management of BGMC Group shall not be present for such discussions; and
 - (ii) regularly throughout the year as the Head of Internal Audit shall require.
- (e) where consultants or internal group resources are engaged by management of BGMC Group to review particular aspects of BGMC Group's risk identification and/or risk management issues and/or internal control issues, the Committee have access to all such reports and presentations and if considered appropriate request that such consultant(s) present to the Committee;
- (f) approve the internal audit charter and review its effectiveness on an annual basis;
- (g) approve decisions regarding the appointment, removal, and salary of the Head of Internal Audit; and
- (h) review the performance evaluation of the Head of Internal Audit.

1.7 External Audit

The Committee shall:

- 1.7.1 consider and make recommendations to the Board, in relation to the appointment, re-appointment and removal of the BGMC's external auditors, oversee the selection process for new auditors and investigate the resignation by the external auditors.
- 1.7.2 oversee the relationship with the external auditors including but not limited to:
 - (a) approval of their remuneration (to be negotiated by management), whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted and approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (b) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole;
 - (c) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures. Discuss with the external auditor the nature and scope of the audit and reporting obligations;
 - (d) seek from external auditor, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff, the level of fees paid by the Company and the BGMC Group compared to the overall fee income of the firm, office and partner and other related requirements; and
 - (e) agree with the Board the policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditor's judgment or independence in respect of an audit. A former partner of the existing external auditing firm will be prohibited from acting as a member of the Committee for a period of two years from the date of his/her ceasing to be a partner of the firm or to have financial interest in the firm, whichever is later.
- 1.7.3 meet with the external auditors (it being noted that the external auditors may participate in such meetings by telephone):
 - (a) at every meeting to discuss their remit and any issues arising from the audit. Management of BGMC Group shall not be present for such discussions; and
 - (b) regularly throughout the year (including at the planning stage before the audit and at the reporting stage after the audit) as the external auditors shall require.

- 1.7.4 review and approve the annual external audit plan and ensure that it is consistent with the scope of the audit engagement;
- 1.7.5 review the findings of the external audit with the external auditors (if necessary in the absence of management), including but not limited to, the following:
 - (a) a discussion of any major issues and recommendations which arose during the audit;
 - (b) any accounting and audit judgments;
 - (c) levels of operational and financial errors identified during the audit; and
 - (d) any disagreements with management which, if not satisfactorily resolved, would result in the issue of a qualified report on the financial statements.
- 1.7.6 obtain comments of management regarding the responsiveness of the external auditor to the needs of the BGMC Group, and review the effectiveness of the audit;
- 1.7.7 review any representation letter(s) requested by the external auditors before they are signed by management;
- 1.7.8 review the management letter and management's response to the external auditors' findings and recommendations, and ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and
- 1.7.9 if required, appoint any accounting firm to perform an external review on the effectiveness of its designed control objectives and control activities. It will be responsible for overseeing the engagement process and approval of their remuneration. It will review and approve any report produced and ensure that it is in line with the terms of engagement.

Notwithstanding the matters above listed as part of the Committee's authority, the Committee shall not have authority to approve any decision that could have a significant impact on the risk profile of the Company or the BGMC Group. Any such decision shall be referred to the Board for approval.

The engagement of BGMC Group's external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditors due to their unique expertise in a particular area, this matter shall be considered in accordance with the BGMC Group Policy on external auditors and the prior approval of the Committee is required.

1.8 Other Matters

1.8.1 Authority And Duties

The Committee shall:

- (a) have access to sufficient resources and training in order to carry out its duties;
- (b) give due consideration to all relevant laws and regulations, and investigate any activity within its Terms Of Reference;
- (c) have access to members of management and legal counsel, and invite the attendance of outsiders with relevant experience and expertise at any meeting if necessary;
- (d) undertake regular and thorough review to ensure that BGMC is meeting the Listing Rules and the legal requirements in relation to financial reporting;
- (e) review its own performance, constitution and Terms Of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval; and
- (f) produce an annual report on its activities.

In addition to the above, the Committee may investigate, discuss or review matters outside its Terms Of Reference if required to do so by the Board.

1.8.2 Powers

The Committee is authorised to:

- (a) have access to any information, record or reports it requires from any employee of BGMC or its subsidiaries in order to perform its duties and all employees are directed to cooperate with the Committee;
- (b) obtain, at the BGMC's expense, outside legal or other professional advice on any matter within its Terms Of Reference; and
- (c) call any employee of the Company or its subsidiaries to be questioned at a meeting of the Committee as and when required.

1.8.3 Conflict of Interests

Committee members must ensure that unless outside consultation is agreed, they maintain confidentiality with regard to all matters discussed and all materials and data made available to them in respect of their Committee-related activities. Furthermore, a Committee member must declare to the Chairman the nature and extent of any conflict of interest he may have as soon as reasonably practicable. The Committee member shall provide the Chairman with such details of the matter as is necessary for the Chairman to decide how to address the conflict, together with such additional information as the Chairman may reasonably request. Where the Chairman considers that any member has an actual or potential conflict of interest on a particular matter, that Committee member shall not be permitted to vote in relation to that matter. Any conflicts shall be dealt with in accordance with the Conflicts of Interest policy. The Chairman is empowered to ask any Committee members to leave all or part of a meeting, or resign from the Committee if he reasonably considers their continued involvement is no longer appropriate.