

Hilong Holding Limited

海隆控股有限公司*

(the “Company”)

(Incorporated in the Cayman Islands with limited liability)

TERMS OF REFERENCE FOR AUDIT COMMITTEE

(Adopted by the Company pursuant to the Board resolutions passed on 11 December 2015)

Membership

1. The Committee shall be appointed by the Board from amongst the Non-executive Directors and Independent Non-executive Directors of the Company and must consist of not less than three members. Majority of the members must be Independent Non-executive Directors and at least one of the Independent Non-executive Directors shall have appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”). A quorum shall be any two members.
2. The Chairman of the Committee, who shall be a member of the Committee, shall be appointed by the Board and must be an Independent Non-executive Director.

Attendance at meetings

3. The Director in charge of finance and accounting functions, the head of Internal Audit, and a representative of the external auditors shall normally attend the meetings. Other Board members shall also have the right of attendance. However, at least twice a year the Committee shall meet with the external and internal auditors without executive Board member present.
4. The Company Secretary shall be the Secretary of the Committee. The Secretary shall keep full minutes of the meetings of the Committee and shall send draft and final versions of minutes of the meetings to all Committee members for their comment and records, within a reasonable time after the meeting.
5. Unless otherwise stated herein, the meetings are governed by the provisions contained in the Company’s Articles of Association for regulating the meetings and proceedings of Directors.

Voting

6. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in the case of an equality of votes the Chairman shall have a second or casting vote.

* *For identification purposes only*

Resolutions in Writing

7. A resolution in writing signed by all of the members shall be as valid and effectual as if it had been passed at a meeting of the Committee. Any such resolution may be contained in a single document or may consist of several documents all in like form.

Frequency of meetings

8. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

Authority

9. The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek relevant information it requires from any employee and all employees are directed to co-operate with any request made by the Committee within its authority in accordance with the Listing Rules.
10. The Committee is authorized by the Board 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.

Duties

11. The duties of the Committee shall include:

Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of external auditor, the remuneration and terms of engagement of the external auditor, and to consider any questions of resignation or dismissal of the external auditor;
- (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 Audit Committee should discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations;
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services, to report to the board, and to identify and make recommendations on any matters where action or improvement is needed. 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.

Review of the Company's financial information

- (d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publications, quarterly reports, and to review significant financial reporting judgements 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 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 the Listing Rules and legal requirements in relation to financial reporting.
- (e) Regarding (d) above:
 - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the financial statements, 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 risk management and internal control systems

- (f) to oversee and monitor the risk management and internal control systems of the Company on an ongoing basis and review with the Company's external auditor and management periodically, to ensure that a review of the scope, adequacy and effectiveness of the Group's corporate accounting and financial controls, risk management and internal control systems, and any related significant findings regarding risks or exposures, and to consider the recommendations for improvement of such controls is conducted at least annually. The review should cover all material controls, including financial, operational and compliance controls. In conducting the annual review, the Committee should, in particular, consider:
 - (i) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;

- (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
 - (iii) the extent and frequency of communication of monitoring results to the Committee (or to the Board) which enables it to assess control of the Company and the effectiveness of risk management;
 - (iv) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
 - (v) the effectiveness of the Company's processes for financial reporting and Listing Rule compliance.
- (g) to discuss the risk management and internal control systems with management 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, internal audit and financial reporting functions;
- (h) to consider 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;
- (i) to review the internal audit function*, to ensure co-ordination within the Group and between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor its effectiveness;
- * *An internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems so as to add value and improve the Company's operations. Internal audit function helps the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Company may outsource the internal audit function to external competent independent third parties.*
- (j) to report to the Board any suspected frauds and irregularities, failures of the risk management and internal control systems 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 and review the findings of internal investigations into any suspected frauds or irregularities or failures of risk management and internal controls or infringements of laws, rules and regulations in relation to financial reporting;

- (k) to report to the shareholders it has conducted the review of the effectiveness of its risk management and internal control systems and the effectiveness of the internal audit function in the Corporate Governance Report and ensure other disclosure requirements in relation to how the Group has complied with the risk management and internal control systems code provisions as set out in the “Corporate Governance Code and Corporate Governance Report” of the Listing Rules are fulfilled.

Oversight of the company’s financial reporting system

- (l) to review the Group’s financial and accounting policies and practices;
- (m) to review the external auditor’s management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management’s response;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor’s management letter;
- (o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and 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;
- (p) to act as the key representative body for overseeing the Company’s relations with the external auditor;
- (q) to report to the Board on the matters set out in these terms of reference; and
- (r) to consider other topics, as defined by the Board.

Reporting procedures

12. The Secretary shall circulate the minutes of meetings and reports of the Committee to all members of the Board.
13. The Committee shall report back to the Board on their findings, decisions and recommendations on the matters set out herein.

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