



## SUSTAINABLE FOREST HOLDINGS LIMITED

永保林業控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock code: 723)

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### TERMS OF REFERENCE OF THE AUDIT COMMITTEE (Revised version adopted on 31 December 2018)

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#### 1. Constitution

- 1.1 The Audit Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of Sustainable Forest Holdings Limited (the “**Company**”) was established by the Board.

#### 2. Membership and Secretary

- 2.1 Members of the Committee (the “Member(s)”) shall be appointed by the Board from amongst the non-executive directors of the Company (including independent non-executive directors) and shall consist of not less than three members, a majority of whom should be independent non-executive directors. At least one of the Members shall be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under 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”).
- 2.2 A former partner/director of the Company’s existing auditing firm/corporation shall be prohibited from acting as a member of the Committee for a period of at least two (2) years from the date of this person ceasing:
- (a) to be a partner/director of the firm/corporation; or
  - (b) to have any financial interest in the firm/corporation,
- whichever is later.
- 2.3 The chairman of the Committee (the “**Chairman**”) shall be appointed by the Board or elected among the Members and shall be an independent non-executive director.
- 2.4 The company secretary of the Company shall be the secretary of the Committee (the “**Secretary**”) who shall attend all meetings of the Committee. In the absence of the Secretary, the Members present at the meeting of the Committee shall elect any person among themselves as the secretary for that meeting.

\* For identification purpose only

- 2.5 The appointment of the Members or Secretary may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee.
- 2.6 Every Member shall ensure that he/she can give sufficient time and attention to his/her duties as a Member. He/She shall give the Company and the Committee the benefit of his/her skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.

### **3. Proceedings of the Committee**

#### **3.1 *Notice:***

- (a) Unless otherwise agreed or waived by all the Members (either orally or in writing), a Regular Meeting (as defined in the below 3.3) of the Committee shall be called by at least 14 days' notice. For convening all other meetings, reasonable notice should be given.
- (b) A Member and/or the external auditors of the Company may and, on the request of a Member and/or the external auditors of the Company, the Secretary shall, at any time summon a Committee meeting.
- (c) Notice shall be given to each Member 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 or in such other manner as the Members may from time to time determine.
- (d) Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.
- (e) 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 for the purposes of the meeting. For the Regular Meetings of the Committee, and as far as practicable for all other meetings of the Committee, the agenda and accompanying papers shall be sent, in full, to all the Members. These should be sent in a timely manner and at least 3 days before the intended date of the meeting of the Committee (or other agreed period by all the Members).
- (f) Any Member shall be entitled, by notice to the Secretary, to include other matters relevant to the functions of the Committee in the agenda of a Committee meeting.

#### **3.2 *Quorum:***

- (a) The quorum of the Committee meeting shall be two Members and a majority of which shall be the independent non-executive directors.
- (b) A duly convened meeting of the Committee at which a quorum is present at the time when the meeting proceeds to business and continues to be present until the conclusion of the meeting, shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

- 3.3 ***Frequency:*** Meetings shall be held at least twice every year (the “**Regular Meeting(s)**”).
- 3.4 ***Attendance:*** Members may attend or participate in any meetings of the Committee either in person, by means of a conference telephone or through other electronic means of communication so that all persons participating in the meeting can communicate with each other and such participation shall constitute presence at a meeting as if those participating were present in person.
- 3.5 The Company’s staff having accounting and financial reporting functions, the chief financial officer, the head of internal audit (or any officer(s) assuming the relevant functions but having a different designation) and representative(s) of the external auditors shall normally attend meetings of the Committee. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without the presence of members of the executive directors and the management of the Company.
- 3.6 The Member shall not be counted towards the quorum in meetings of the Committee and he/she must abstain from voting in any resolutions of the Committee in which he/she or any of his/her associates has a material interest, unless the exceptions set out in note 1 to Appendix 3 of the Listing Rules apply.
- 3.7 A resolution in writing signed by all the Members shall be as valid and effectual as if a resolution had been passed at a meeting of the Committee convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Members.

#### **4. Overriding Principles**

- 4.1 The Board should establish formal and transparent arrangements to consider how it will apply financial reporting and internal control principles and maintain an appropriate relationship with the Company’s auditors.

#### **5. Alternate Members**

- 5.1 A Member cannot appoint any alternate.

#### **6. Authority of the Committee**

- 6.1 The Committee may exercise the following powers:
- (a) to seek any information it requires from the management and any employee of the Company and its subsidiaries (together, the “**Group**”) and any professional advisers in order to perform its duties, to require any of them to prepare and submit reports and to attend Committee meetings and to supply information and address the questions raised by the Committee;
  - (b) 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 Listing Rules and other rules and regulations from time to time determined by the Board or a committee thereof);

- (c) to investigate any activity within these terms of reference and all suspected fraudulent acts involving the Group and request the management to make investigation and submit reports;
- (d) to review the Group's internal control procedures and system and to make recommendations to the Board for the improvement thereof;
- (e) to review the performance of the Group's employees in the accounting and internal audit department (where applicable);
- (f) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group;
- (g) to obtain outside legal or other independent professional advice with relevant experience and expertise at the cost of the Company on any matters within these terms of reference as it considers necessary. For this purpose, a request for such advice may be made by any Members to the Board through the Secretary;
- (h) to commission reports or surveys as are necessary to assist in the performance of its duties at the cost of the Company;
- (i) 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 of the Company (the "**Shareholder(s)**");
- (j) to review from time to time 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;
- (k) to have access to the advice and services of the Secretary with a view to ensuring that procedures of the Committee and all applicable rules and regulations are followed; and
- (l) to exercise such powers as the Committee may consider necessary and expedient so that their duties under section 7 below can be properly discharged or such powers and rights as delegated or assigned by the Board and/or as empowered to the Committee under the Listing Rules from time to time.

6.2 The Committee should be provided with sufficient resources to perform its duties.

## **7. Duties of the Committee**

7.1 The duties of the Committee shall be:

### ***Relationship with the Company's 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 standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to ensure co-ordination among external auditors where more than one audit firm/corporation is engaged;
- (d) 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/corporation or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm/corporation nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (e) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (f) 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 provide the Board with the Committee's statement explaining its recommendation for inclusion in the Company's annual reports, and if required, interim reports;
- (g) to consider all relationships between the Company and the audit firm/corporation (including non-audit services);
- (h) to obtain from the audit firm/corporation annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners/directors and staff;
- (i) to meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise;
- (j) to agree with the Board the Company's policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The Committee shall then be in a position to consider whether there has been or appears to be any impairment of the auditor's judgment or independence for the audit;
- (k) to ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor's independence or objectivity in relation to non-audit services, the Committee may wish to consider:
  - (i) whether the skills and experience of the audit firm/corporation make it a suitable supplier of non-audit services;

- (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services;
- (iii) the nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm/corporation; and
- (iv) criteria for compensation of the individuals performing the audit.

***Review of the Company's financial information***

- (l) to monitor the 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 judgments contained in them. In reviewing these reports before submission to the Board, focusing 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;
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
  - (vii) the fairness and reasonableness of any connected transaction, if any, and the impact of such transaction on the profitability of the Group and whether such connected transactions have been carried out in accordance with the terms of the agreement governing such transactions;
  - (viii) 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;
  - (ix) any significant or unusual items that are, or may need to be, reflected in such reports and accounts; and
  - (x) the cashflow position of the Group;

and to provide advice and comments thereon to the Board;
- (m) regarding (l) above:
  - (i) Members should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; 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;
- (n) to discuss problems and reservations arising from the interim reviews or final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

***Oversight of the Company's financial reporting system and internal control procedures***

- (o) to review the Company's financial controls, internal control and risk management systems;
- (p) to discuss the internal control system 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;
- (q) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (r) 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;
- (s) to review the Group's financial and accounting policies and practices;
- (t) 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;
- (u) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (v) to conduct exit interviews with any director, manager, chief financial officer, financial controller or internal credit control manager of the Group upon their resignation in order to ascertain the reasons for his/her departure;
- (w) on its role and work performed during the financial year to prepare work reports for presentation to the Board and to prepare summary of work reports to Shareholders for inclusion in the Group's annual reports and if required, interim reports;
- (x) to consider the appointment of any person to be a Member, auditors and accounting staff (including internal auditing) either to fill a casual vacancy or as an additional Member, auditors and accounting staff (including internal auditing) or dismissal of any of them;

- (y) to report to the Board on the matters in the code provision set out in Appendix 14 to the Listing Rules, in particular, matters required to be performed by the Committee;
- (z) 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 Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (za) to consider other matters and perform other duties, as defined or assigned by the Board and/or as required to be performed by the Committee under the Listing Rules from time to time;

***Corporate governance functions delegated by the Board***

- (zb) the Committee shall perform the following function and duties regarding corporate governance, as delegated by the Board:
  - (i) to develop and review the Company’s policy and practices on corporate governance and make recommendations to the Board;
  - (ii) to review and monitor the training and continuous professional development of directors and senior management;
  - (iii) to review and monitor the Company’s policy and practices on compliance with legal and regulatory requirements;
  - (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
  - (v) to review the Company’s compliance with the code (the “**Corporate Governance Code**”) set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report (the “**Corporate Governance Report**”) set out in that Appendix.

Note: “senior management” shall refer to the same category of persons as referred to in the Company’s annual report.

**8. Veto rights of the Committee**

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



## **9. Minutes and Reporting Procedures**

- 9.1 The Secretary or the secretary appointed for the meetings of the Committee shall minute in sufficient detail the matters considered and decisions reached at such meetings. The minutes shall also include any concerns raised by any member of the Committee and/or dissenting views expressed.
- 9.2 Full minutes of the meetings of the Committee and all written resolutions of the Committee should be kept by the Secretary, which shall be available for inspection by any Member or the Board at any reasonable time on reasonable notice.
- 9.3 The Secretary shall circulate the draft and final versions of minutes of the meeting of the Committee or, as the case may be, written resolutions of the Committee to all Members for their comment and records respectively within a reasonable time after the meeting or before the passing of the written resolutions. Once the minutes and/or written resolutions are signed, the Secretary shall within a reasonable time submit a copy of such minutes and written resolutions of the Committee to the Board for record.
- 9.4 The Secretary shall keep record of all meetings of the Committee held during each financial year of the Company and records of individual attendance of Members, on a named basis, at meetings held during that financial year.
- 9.5 The Committee shall compile a report to Shareholders on its roles and work performed by it during the financial year for inclusion in the Company's annual report.
- 9.6 The Committee shall report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

## **10. Annual general meeting**

- 10.1 The Chairman or in his/her absence, another Member or failing this, his/her duly appointed delegate, shall attend the annual general meeting of the Company and be prepared to answer questions at the annual general meeting on the Committee's activities and their responsibilities.

## **11. Continuing application of the bye-laws of the Company**

- 11.1 The bye-laws of the Company regulating the meetings and proceedings of the directors so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

## **12. Powers and duties of the Board**

- 12.1 The Board may, subject to compliance with the bye-laws of the Company and the Listing Rules (including the Corporate Governance Code and Corporate Governance Report), amend, supplement and revoke these terms of reference and any resolution passed by the Committee provided that no amendments to and revocation of these terms of reference and the resolutions passed by the Committee shall invalidate any prior act and resolution of the Committee which would have been valid if such terms of reference or resolution had not been amended or revoked.

12.2 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

**13. Publication of the terms of reference of the Committee**

13.1 These terms of reference will be posted on the websites of the Company and the Stock Exchange, and shall be made available on request.

*The Chinese version of these terms of reference is a translation of the English version and is for reference only. In case of any discrepancies or inconsistencies between the English version and the Chinese version, the English version shall prevail.*