

MEGALOGIC TECHNOLOGY HOLDINGS LIMITED

宏創高科集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8242)

(the “Company”)

TERMS OF REFERENCE OF AUDIT COMMITTEE

(Revised pursuant to the resolutions of the board of directors of the Company (the “Board”) passed on 31 December 2015)

AUTHORITY

1. The Audit Committee shall have unrestricted access to other members of the Board, senior management, the qualified accountant, internal controller and external auditors in execution of its duties and responsibilities. All relevant employees will be directed to co-operate with any request made by the Audit Committee.
2. The Audit Committee is authorised to obtain independent professional advice in accordance with the procedures to be adopted by the Company from time to time and to secure the attendance of any external professional with relevant experience and expertise if necessary. The Audit Committee should be provided with sufficient resources to perform its duties.
3. The Audit Committee must comprise non-executive directors only. The Audit Committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in rule 5.05(2) of Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The majority of the Audit Committee members must be independent non-executive directors of the Company. The Audit Committee must be chaired by an independent non-executive director.
4. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Audit Committee for a period of one 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.

RESPONSIBILITIES

5. The Audit Committee shall perform the following duties:

Relationship with the external auditors

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;
- (b) to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on engaging the external auditors to supply non audit services. For this purpose, the “external auditors” 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;

Review of the Company’s financial information

- (d) to monitor the integrity of the financial statements, annual report and accounts, half-year report and quarterly reports of the Company, and to review significant financial reporting judgements contained in them. In reviewing these reports and accounts 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 GEM Listing Rules and legal requirements in relation to financial reporting;
- (e) Regarding (d) 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 external 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 and should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting, internal audit and financial reporting functions, the compliance officer or the external auditors;

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

- (f) to review the financial controls, and unless expressly addressed by a separate Board risk management and internal control committee, or by the Board itself, to review the risk management and internal control systems of the Company;
- (g) to discuss the risk management and internal control systems with the management to ensure that the 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 the management's response to these findings;
- (i) to ensure co-ordination between the external professional and the 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;
- (j) to review the financial and accounting policies and practices of the Company and its subsidiaries;
- (k) to review the management letter of the external auditors, any material queries raised by the external auditors to management about accounting records, financial accounts or systems of control and the management's response;

- (l) to ensure that the Board will provide a timely response to the issues raised in the management letter of the external auditors;
- (m) to report to the Board on the matters in the code provisions in the Corporate Governance Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules;
- (n) to consider other topics, as defined by the Board;
- (o) 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; and
- (p) to act as the key representative body for overseeing the Company's relations with the external auditors.

MEETINGS

- 6. Meetings of the Audit Committee shall be held not less than four times a year. The Audit Committee shall meet, at least twice a year, with the Company's auditors. The external auditors may request a meeting if they consider that is necessary.
- 7. A quorum of the meeting shall be two members.
- 8. Resolutions of the Audit Committee at any meeting shall be passed by a majority of votes of members if more than two members are present and by a unanimous vote if only two members are present.

AUDIT COMMITTEE'S RESOLUTIONS

- 9. A resolution in writing signed by all the members of the Audit Committee shall be as valid and effective as if it had been passed at a meeting of the Audit Committee and may consist of several documents in like form each signed by one or more of the members of Audit Committee. Such resolution may be signed and circulated by facsimile or other forms of electronic communications. This provision is without prejudice to any requirement under the GEM Listing Rules for a meeting of the Board or Audit Committee to be held.

REPORTING PROCEDURES

10. (a) The Audit Committee shall report to the Board identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken. At the next meeting of the Board following a meeting of the Audit Committee, the Chairman of the Audit Committee shall report their decisions and recommendations of the Audit Committee to the Board.
- (b) Full minutes of meetings of the Audit Committee shall be kept by a duly appointed secretary of the Audit Committee meeting (who should normally be the Company secretary). Draft and final versions of minutes of the meetings of the Audit Committee shall be sent to all members of the Audit Committee for their comment and records respectively, in both cases within seven days after the meeting.
- (c) Copies of the minutes of meetings of the Audit Committee shall be provided to the Board at its meetings.
- (d) The Audit Committee shall make available at least one of its members to attend the Company's annual general meeting to answer shareholders' questions about audit issues.

REVISION OF THE TERM OF REFERENCE

11. These terms of reference shall be updated and revised as and when necessary in light of changes in circumstances and changes in regulatory requirements (e.g. the GEM Listing Rules).

Hong Kong, 31 December 2015