

# DESON CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED (THE “COMPANY”)

## Terms of Reference for Internal Control Committee

### 1. CONSTITUTION

The board of Directors (the “**Board**”) has on 16 December 2014 resolved to establish a committee of the Board to be known as the Internal Control Committee (the “**Committee**”) with effect from the listing date of the Company.

### 2. FUNCTIONS AND OBJECTIVES

The Committee is responsible for ensuring good corporate governance standards and practices are maintained, evaluating and determining the nature and extent of the risks the Board is willing to take in achieving the Company’s strategic objectives, ensuring that the Company establishes and maintains appropriate and effective risk management and internal controls systems, overseeing management in the design, implementation and monitoring of the risk management and internal control systems, ensuring that management provides a confirmation to the Board on the effectiveness of these systems, reviewing and discussing solutions to regulatory compliance and internal control matters and reviewing, implementing and monitoring any non-compliance of the non-competition agreement entered into between Deson Development International Holdings Limited in favour of the Company dated 16 December 2014 (“**Non-competition Agreement**”).

### 3. COMPOSITION

- 3.1 The members of the Committee shall be appointed by the Board and shall consist of at least three members, consisting of all the independent non-executive directors of the Company.
- 3.2 The Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive Director.

### 4. ATTENDANCE AT MEETINGS

- 4.1 The Committee may invite any executive Directors, member of senior management, the internal audit officer or other individual to attend meetings of the Committee as it considers appropriate but such executive Directors, member of senior management or other individuals are not entitled to vote at the meetings.
- 4.2 The Company Secretary of the Company or his or her nominee shall be the secretary of the Committee.

### 5. PROCEEDINGS OF MEETINGS

- 5.1 The meetings and proceedings of the Committee are governed by the provisions of the Articles of Association of the Company for regulating the meetings and proceedings of the Board, except for otherwise determined by the Board from time to time.
- 5.2 The quorum for meetings shall be two members of the Committee.

5.3 The Chairman and the secretary of the Committee should be primarily responsible for drawing up and approving the agenda for each Committee meeting. The Chairman, with the assistance of the secretary, shall ensure that all members shall receive sufficient information in a timely manner to enable effective discussion at the Committee meeting. The Chairman shall brief all members on issues arising at each Committee meeting.

## **6. FREQUENCY OF MEETING**

Meetings shall be held at least once a year and at such times as the Committee determines is appropriate to carry out its responsibilities.

## **7. AUTHORITIES**

7.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

7.2 The Committee is authorised by the Board, at the expenses of the Company, 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.

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

## **8. DUTIES OF THE COMMITTEE**

8.1 In addition to any other responsibilities which may be assigned from time to time by the Board, the duties of the Committee shall be:

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company;
- (e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report;
- (f) to oversee the Company's risk management and internal control systems on an ongoing basis and ensure that a review of the effectiveness of the Company and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls;

- (g) to conduct annual review to ensure 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 conduct annual review to consider the following matters:
  - (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 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 the compliance of the Rules Governing the Listing of Securities on the Growth Enterprise Markets of the Stock Exchange ("**GEM Listing Rules**");
- (i) to prepare, review and recommend to the Board for approval of the Corporate Governance Report to be included in the interim report and the annual reports and to ensure the Corporate Governance Report must contain all the information pursuant to the mandatory disclosure requirements set out in paragraphs G to Q of Appendix 15 to the GEM Listing Rules;
- (j) in preparing the Corporate Governance Report as stated in paragraph (i) above, to a reasonable and appropriate extent, to decide whether such Corporate Governance Report to be a summary of the Corporate Governance Report contained in the annual report or to incorporate information by reference to its annual report. The references must be clear and unambiguous and the summary must not contain only a cross-reference without any discussion of the matter. The summary must contain, as a minimum, a narrative statement indicating overall compliance with and highlighting any deviation from the code provisions;
- (k) in preparing the Corporate Governance Report as stated in paragraph (i) above, to review and consider whether to disclose information pursuant to recommended disclosures set out in paragraphs R to T of Appendix 15 to the GEM Listing Rules in the Corporate Governance Reports;

- (l) in preparing the Corporate Governance Report as stated in paragraph (i) above, to ensure that the Company discloses a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period. In particular, the Company should disclose:
  - (i) the process used to identify, evaluate and manage significant risks;
  - (ii) the main features of the risk management and internal control systems;
  - (iii) an acknowledgement by the Board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss;
  - (iv) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and
  - (v) the procedures and internal controls for the handling and dissemination of inside information;
- (m) to ensure that that the Company reviews the need for an internal audit function on an annual basis and disclose the reasons for the absence of such a function in the Corporate Governance Report;
- (n) to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of the Company's compliance with the code provisions and recommended best practices set out in the Corporate Governance Code for the relevant accounting period and to review and ensure disclosure of compliance with the code provisions set out in the Corporate Governance Code in the Company's interim reports (and summary interim reports, if any) and annual reports (and summary financial reports, if any);
- (o) in reviewing the Company's compliance with the matters set out in (a) to (e) above, focusing particularly on:
  - (i) any deviation from such policies and practices; and
  - (ii) major judgemental areas;
- (p) in conducting the review described in (o) above, members of the Committee:
  - (i) must liaise with the Board, senior management and the Company's staff responsible for the corporate governance function at least twice a year to discuss any deviations, problems and reservations arising from the Company's compliance with such matters set out in (a) to (e) above as well as code provisions and recommended best practices set out in the Corporate Governance Code;

- (ii) consider any deviations from the code provisions set out in the Corporate Governance Code and discuss reasons for such deviations with the Board, senior management and the Company's staff responsible for corporate governance function and disclose such considered reasons:
  - (a) for annual reports (and summary financial reports), in the Corporate Governance Report under Appendix 15; and
  - (b) for interim reports (and summary interim reports), either:
    - (1) by giving considered reasons for each deviation; or
    - (2) to the extent it is reasonable and appropriate, by referring to the Corporate Governance Report in the immediately preceding annual report, and providing details of any changes together with considered reasons for any deviation not reported in that annual report. The references must be clear and unambiguous and the interim report (or summary interim report) must not contain only a cross-reference without any discussion of the matter;
- (iii) consider any deviation from the recommended best practices set out in the Corporate Governance Code and discuss reasons for such deviations with the Board, senior management and the Company's staff responsible for corporate governance function and may choose to disclose compliance with such best practices and disclose considered reasons for any deviation in the annual reports (and summary financial reports) or the interim reports (and summary interim reports);
- (iv) must give due consideration to any matters that have been raised by the Board, senior management and the Company's staff responsible for corporate governance function;
- (q) to report to the Board on the matters set out in paragraph D of the Code on Corporate Governance in Appendix 15 of the GEM Listing Rules;
- (r) to maintain a register of all opportunities/transactions arising from the implementation of the Non-competition Agreement;
- (s) to review the implementation and compliance of the Non-competition Agreement to ascertain the terms of the Non-competition Agreement have been complied with. The review will include examination of supporting documents and such other data deemed necessary to the Committee. If any member of the Committee has an interest in a transaction arising from the implementation of the Non-competition Agreement, he or she is to abstain from participating in the review and approval process in relation to that transaction;
- (t) to review the decisions on matters reviewed by the independent non-executive Directors relating to the enforcement of the Non-competition Agreement (if any) in the Company's annual report or, where appropriate, by way of an announcement to the public;
- (u) to consider other topics, as defined by the Board;

- (v) to do any such things to enable the Committee to perform its functions conferred on it by the Board;
- (w) to appraise the Board of significant developments in the course of performing the above duties;
- (x) to recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee; and
- (y) to make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on The Stock Exchanges of Hong Kong Limited's website and the Company's website.

8.2 The Chairman of the Committee or in the absence of the Chairman, another member of the Committee or failing this, his duly appointed delegate, should be available to answer questions at the annual general meeting.

## **9. REPORTING PROCEDURES**

9.1 The secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Committee to all members for comments and records within a reasonable time after each meeting, subject to any legal or regulatory restrictions restricting such circulation or the making of such reports. The Chairman shall report in the forthcoming regular Board meeting any key decisions made and shall table before the Board an index of meetings and issues discussed.

9.2 The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report to the Board on the findings and recommendations of the Committee.

9.3 The secretary of the Committee shall record minutes of all duly constituted meetings of the Committee. All minutes shall record in sufficient details the matters considered, decisions reached or recommendations made and any concerns raised by any member including dissenting views.

## **10. INTERPRETATION**

Interpretation of these terms of reference shall belong to the Board.

*(The English version shall always prevail in case of any inconsistency between the English version and its Chinese translation.)*

*(Adopted by the Company pursuant to the Board's resolutions passed on 31 December 2015)*