

## **Terms of Reference for the Audit Committee**

This Terms of Reference is specially made to establish an Audit Committee (the "Committee") in providing review and supervision of the financial reporting process and internal control system of the Company, with its authorities and duties clearly listed hereunder, in accordance with "Appendix 14 the Code on Corporate Governance Practices" under the Listing Rules of the Stock Exchange of Hong Kong Limited (the "Code"), pursuant to the requirements for regulated operation, with reference to "A Guide for Formation of an Audit Committee" published by the Hong Kong Society of Accountants (the "Guide") in December 1997.

### **Constitution**

1. The Board of Directors resolved to establish under it a committee known as the "Audit Committee". The Committee shall report to the Board.

### **Membership**

2. The Committee comprises five non-executive directors, the majority of which are independent non-executive directors, who will serve the same term as non-executive directors. A quorum to attend the meeting is three members.

3. The Chairman of the Committee shall be appointed by the Board.

4. Any former partner of the audit company currently engaged in the account auditing for the Company shall not become a member of the Committee, within one year commencing at one of the following dates (whichever comes later).

- (1) the date that he (or she) was terminated as a partner of the audit company, or
- (2) the date that he (or she) did not have any financial interests in the audit company.

### **Attendance at Meetings**

5. The Chief Financial Officer or Deputy General Manager in charge of financial affairs and representative(s) of external auditors shall normally attend the meeting. Other members of the Board of Directors or the Board of Supervisors shall also have the right of attendance. However, the Committee shall at least once a year hold a meeting with the external auditor without any executive director being present.

### **Secretary**

6. The Board Secretary shall act as the secretary of the Committee. If the Board Secretary shall be an executive director, the Committee may appoint another one as secretary of the Committee.

## **Frequency of Meetings**

7. The Committee shall hold meetings no less than twice a year. Any member from the Committee, any director or supervisor and General Manager, financial officers, Board Secretary, or other members of the senior management, or the external auditors may request a meeting if they consider that one is necessary.

## **Authorities**

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

9. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure attendance of outsiders with relevant expertise and experience if it considers this necessary.

10. If the Board shall disagree with the Committee on the selection, appointment, resignation or removal of any external auditor, the Company shall include in its Corporate Governance Report a statement made by the Committee to illustrate its recommendation and the reason for the disagreement made by the Board.

11. The Committee shall have access to sufficient resources to carry out its duties.

## **Duties**

12. The duties of the Committee shall be:

### **In Relation to the Auditor**

(1) to act as the key representative body for overseeing the issuer's relations with the external auditor, monitoring the relationship between the two parties;

(2) to be primarily responsible for making recommendations to the Board on appointment, reappointment and removal of external auditor, approve remuneration and terms of engagement of the external auditor, and any matter of resignation or dismissal of that auditor;

(3) to review and monitor the external auditor's independence and objectiveness and effectiveness of the audit process; to discuss with the auditor the nature and scope of the audit and the reporting obligations before the audit commences, and ensure co-ordination where more than one audit firm is involved;

(4) to develop and implement policy on engagement of an external auditor to supply non-audit services. For this purpose, the external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that

a reasonable and informed third party having knowledge of all information would normally conclude as part of the audit firm nationally or internationally. The Committee should report to the Board, identifying any matter in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

### **Review of Financial Materials**

(5) to monitor the integrity of the financial statements, annual report and accounts, and interim report, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the annual report and accounts, and interim report before submission to the Board, the Committee should focus particularly on:

- a) any change in accounting policy and practices;
- b) areas for the management to make assessments or judgments;
- c) Whether the disclosure of related items in the Company's financial statements is sufficient, and whether the disclosed material would make any user of accounts fairly understand the nature of the reported transaction;
- d) any inconsistency in the financial statements, particularly whether the report of the Board and the letter of the Chairman fairly reflect the Company's performance and are consistent with each account;
- e) to review the disclosed material on any significant and extraordinary item within the year to decide whether it is fair, or misleading, or has received appropriate attention in the financial statement;
- f) significant adjustments resulting from audit;
- g) the going concern assumptions and qualifications;
- h) compliance with accounting policy; and
- i) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

(6) In regard to (4) above:

- a) Members of the Committee must liaise with the Board of Directors, senior management and any engaged certified accountant of the Company. The Committee must meet at least twice a year with the auditor of the Company; and
- b) The Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts, and must give due consideration to any matters that have been raised by the qualified accountant of the Company, Chief Compliance Officer or auditor.

### **Monitoring of Financial Reporting System and Internal Control System**

- (7) to review the financial controls, risk management and internal control systems;
- (8) to discuss with the management the systems of risk management and internal control and ensure the management has discharged its duties to have effective systems;
- (9) to discuss any issues and questions raised after the interim and annual account auditing, matters that the external auditor wants to discuss (the management may not

- be present at the meeting if necessary) and the management's response;
- (10) to review the external auditor's Audit Fact Sheet and management's response;
- (11) to ensure that the Board will provide a timely response to the issues raised in the external auditor's Audit Fact Sheet to the management;
- (12) to review statements made by the Company on its risk management and internal control systems (such as, those contained in the annual report) before submission to the Board for execution;
- (13) to review internal audit program to ensure co-ordination between internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing in the Company, and to review and monitor the effectiveness of the internal audit function;
- (14) to review the Group's financial and accounting policies and practices;
- (15) to consider any findings of major investigations of risk management and internal control matters as delegated by the Board or on its own initiative and management's response;
- (16) to review the Company's arrangements allowing employees of the Company to raise concerns about improprieties in financial reporting, risk management, internal control or other matters, as well as to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (17) to consider other topics, as defined by the Board;

### **Reporting Procedure**

13. The Committee shall report to the Board on its decisions or suggestions, unless this is limited by law or regulation. The minutes of meetings of the Committee shall be kept by the duly authorized secretary (normally the Board Secretary). The first draft and final draft of minutes of meetings of the Committee shall be sent to all members of the Committee within a reasonable time after such meetings, and the first draft is for members to express their opinions and the final draft is for recording purposes.

### **Publication**

14. The Committee shall make public its function; explain its role and power conferred by the Board.

### **Effectiveness**

15. This Terms of Reference, together with any supplementation and modification to it, shall come into force after being approved by the meeting of the Board, and the Board shall undertake to construe it.