



DAISHO MICROLINE HOLDINGS LIMITED
大昌微綫集團有限公司

Terms of Reference of the Audit Committee

(adopted on 22 December 2005)

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1. Constitution

- 1.1 The Board of Directors (the “Board”) of Daisho Microline Holdings Limited (formerly known as Suwa International Holdings Limited) (the “Company”) had resolved on 1 April 1999 to establish a committee known as the Audit Committee (the “Committee”) in order to provide the Board with an independent review of the effectiveness of the financial reporting process and internal control system of the Company and its subsidiaries (collectively, the “Group”). The terms of reference of the Committee have been updated and amended on 22 December 2005 with reference to the relevant code provisions in Appendix 14 - Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

2. Membership

- 2.1 The Committee members shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members. The majority of the Committee members must be independent non-executive directors.
- 2.2 The Chairman of the Committee shall be an independent non-executive director of the Company as appointed by the Board.
- 2.3 The terms of office of the Committee members shall be determined by the Board.
- 2.4 The quorum of the Committee shall be any two Committee members.
- 2.5 The Company Secretary of the Company, or any person duly appointed by the Committee, shall act as the secretary of the Committee.
- 2.6 A former partner of the Company’s existing audit firm should be prohibited from acting as a member of the Committee for a period of 1 year commencing on 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 the later.

3. Attendance at Meetings

- 3.1 The Financial Controller and a representative 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 executive Board members present.

4. Frequency of Meetings

- 4.1 The Committee shall meet at least two times a year. Any Committee member or the secretary of the Committee may convene Committee meeting if necessary.

5. Minutes

- 5.1 Full minutes of the Committee meeting should be kept by the secretary of the Committee. Draft and final version of minutes of the Committee meeting should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

6. Authority

- 6.1 The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information its requires form any employee and all employees are directed to co-operate with any request made by the Committee.
- 6.2 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.

7. Terms of Reference

The specific duties of the Committee shall be:

Relationship with the Company's auditors

- 7.1 to be primarily responsible for making recommendation 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 resignation or dismissal of that auditor;
- 7.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 7.3 to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, 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 relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Committee should 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;

Review of financial information of the Company

- 7.4 to monitor integrity of financial statements of the Company and the Company's 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 this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the 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 Exchange Listing Rules and other legal requirements in relation to financial reporting;

7.5 In regard to (sub-paragraph 7.4) above:-

- (i) members of the Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Committee must meet, at least once 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 such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;

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

- 7.6 to review the Company's financial controls, internal control and risk management systems;
- 7.7 to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- 7.8 to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- 7.9 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 the effectiveness of the internal audit function;

- 7.10 to review the Group's financial and accounting policies and practices;
- 7.11 to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- 7.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.13 to report to the Board on the matters set out in this Terms of Reference; and
- 7.14 to consider other topics, as defined by the Board.

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