

## **TERMS OF REFERENCE – AUDIT COMMITTEE**

**APPROVED BY THE BOARD OF KEE SHING (HOLDINGS) LIMITED ON 10<sup>th</sup> August, 2005.**

The Audit Committee is a committee of the Board of Kee Shing (Holdings) Limited under the Listing Rules Appendix 14 “Code of Corporate Governance Practices” and Article 128 of the Article of Association of the Company.

### **1. Roles of the Committee**

The roles of the Committee is to:

- 1.1 monitor the integrity of the financial statements of the Group;
- 1.2 review the Group’s internal control system and risk management systems;
- 1.3 make recommendation to the Board in relation to 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;
- 1.4 monitor & review the external auditor’s independence, objectivity and effectiveness;

Where the Audit Committee’s monitoring and review activities reveal cause for concern or scope for improvement, the Committee shall make recommendation to the Board on action needed to address the issue or make improvement.

### **2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board,. The Board shall appoint the Committee Chairman who shall be an Independent Non-Executive Director.
- 2.2 The Committee shall be comprised of at least 3 (THREE) members, of whom the majority shall be Independent Non-Executive Directors.
- 2.3 The Chairman of the Board shall not be a member of the Committee.
- 2.4 At least one member of the Committee shall have appropriate professional qualification or accounting or related financial management expertise to discharge its role and responsibilities.
- 2.5 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer/Managing Director, Finance Director, other directors, representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 2.6 The external auditors will be invited to attend meetings of the Committee

on a regular basis.

- 2.7 Appointments to the Committee shall be for a period of up to three years, which may be extended for the recommendation of the Board, provided the director remains independent.

**3. Secretary**

- 3.1 The Company Secretary shall act as the Secretary of the Committee.

**4. Quorum**

- 4.1 The quorum necessary shall not be less than 2 (TWO) members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 4.2 In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

**5. Frequency of Meetings**

- 5.1 The Committee shall meet at least 3 (THREE) times a year at appropriate times in the reporting and audit cycle and otherwise as required.

**6. Notice of Meetings**

- 6.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external auditors if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 5 working days before the date of the meeting. Relevant supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

**7. Minutes of Meetings**

- 7.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

7.3 Draft minutes of Committee meetings shall be circulated promptly (and generally within 14 days after the meeting) to all members of the Committee and, once agreed, to all members of the Board.

## **8. Annual General Meeting**

8.1 The Chairman of the Committee, or in his/her absence, an appointed deputy shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **9. Duties**

The committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

### **9.1 Relationship with the external auditor**

9.1.1 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 the Committee shall investigate the issues leading to the resignation or dismissal of that auditor;

9.1.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee shall discuss with the external auditor the nature and scope of the audit and reporting obligation before the Audit Commences;

9.1.3 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 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;

### **9.2 Review of financial information of the company**

9.2.1 to monitor integrity of financial statements of the company, including its annual report and accounts, interim report and to review significant financial reporting judgements contained in them. In this regard, in reviewing the company's annual report and accounts, interim report and before submission to the board, the committee shall 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;

9.2.2 In regard to (9.2.1) above:-

- (i) members of the committee must liaise with the company's Board of Directors, members of 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 shall 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;

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

- 9.3.1 to review the company's financial controls, internal control and risk management systems;
- 9.3.2 to review the identification of business risks and procedures of controlling their financial impact on the Group;
- 9.3.3 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;
- 9.3.4 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;
- 9.3.5 to review the group's financial and accounting policies and practices;
- 9.3.6 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;
- 9.3.7 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 9.3.8 to report to the Board on the matters set out in the provision of code on Corporate Governance Practices;

- 9.3.9 to ensure the compliance with relevant regulation and legal requirement;
- 9.3.10 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; and
- 9.3.11 to consider other matters, as referred to it by the Board.

## **10. Authority**

- 10.1 The Committee is authorized by the Board of Directors of the Group to investigate and undertake any activity within the Terms of Reference. The Committee is authorized to seek any information it properly requires from any employee of the Company who is able to provide appropriate information regarding the financial affairs and corporate governance of the Group. All employees of the Group are directed to co-operate with such request made by the Committee.
- 10.2 If the Committee considers it is necessary so to do, it is authorized to obtain, at the Company's expense, external legal or other independent professional advice on matter within its terms of reference.

## **11. Reporting Responsibilities**

- 11.1 The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.2 The committee shall make whatever recommendations to the Board on any adhoc project or matter of the company.

## **12. Others**

- 12.1 Where the Board disagrees with the Audit 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 Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view;
- 12.2 The annual performance evaluation of the Committee shall be reviewed by the Board to ensure that it is working efficiently;
- 12.3 The Committee shall review its own constitution and terms of reference from time to time and recommend any change it considers necessary to the Board for approval;