

# **The United Laboratories International Holdings Limited**

**("the Company")**

## **TERMS OF REFERENCE AND OPERATION OF AUDIT COMMITTEE**

### **Constitution**

1. The Board of Directors of the Company (the "Board") hereby resolves to re-confirm its already existing Audit Committee (the "Committee") on 25 May 2007 in compliance with the Code on Corporate Governance Practices (the "Code") under Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

### **Membership**

2. The Committee shall consist of at least three members appointed by the Board of the Company, and a majority of whom shall be independent non-executive directors (R3.21). At least one member of the Committee shall be a financial expert.
3. The Chairman of the Committee shall be an independent non-executive director appointed by the Board.

### **Frequency and proceedings of meetings**

4. The Committee should meet as frequently as the members think fit.
5. The quorum for a meeting shall be two members of the Committee present in person.
6. Proceedings of meetings of the Committee shall be governed by the provisions of Article 120 of the Articles of Association of the Company.
7. The Company Secretary or in his absence, his delegate, shall act as the secretary of the Committee meetings.

## Authority and Duties

8. The Committee is:
  - (a) 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;
  - (b) 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;
  - (c) 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;
  - (d) to monitor integrity of the financial statements, annual report and accounts and half-year report and to review significant financial reporting judgements contained in them. In this regard, in reviewing the annual report and accounts, half-year report 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 Listing Rules and other legal requirements in relation to financial reporting;
  - (e) In regard to (d) above:-

- (i) members of the Committee must liaise with the Board, senior management and 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;
- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) to review the Group's financial and accounting policies and practices;
- (k) 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;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters set out in the code provisions of the Code;  
and
- (n) to consider other topics, as defined by the Board.