

**TAI CHEUNG HOLDINGS LIMITED**  
(Stock Code: 88)

**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

**1. FUNCTIONS AND OBJECTIVES**

1.1 The Board of Tai Cheung Holdings Limited (the “Company”) has resolved to establish an audit committee (the “Committee”) to assist the Board in providing an independent review of the effectiveness of the financial reporting process and risk management and internal control systems of the group.

**2. MEMBERSHIP**

2.1 Members of the Committee shall be appointed by the Board and shall be made up of at least three members (the “Members”).

2.2 Membership shall be confined to non-executive Directors, the majority of which must be independent non-executive Directors (“INEDs”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.

2.3 The Board shall appoint the Committee Chairman who must be an INED.

**3. SECRETARY**

3.1 The Secretary of the Committee shall either be the Company Secretary or his/her designate.

**4. QUORUM**

4.1 The quorum necessary for the transaction of business of the Committee shall be two Members.

## **5. MEETINGS**

- 5.1 The Committee shall meet as and when necessary, but, at least twice each year. The Company's external auditors may request that a meeting be held if they consider it necessary.
- 5.2 The meetings and proceedings of the Committee are governed by the provisions of the Bye-Laws of the Company for regulating board meetings.
- 5.3 The Committee may invite such other persons (e.g. chief executive, head of internal audit and external audit engagement partner) to its meetings as it deems necessary.
- 5.4 Full minutes shall be kept by the Secretary of the Committee. Draft and final versions of minutes of the meetings shall be sent to all Members for their comment and records within a reasonable time after the meeting.

## **6. AUTHORITY**

- 6.1 The Committee is authorized by the Board to investigate any activity within the scope of these terms of reference.
- 6.2 The Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company, its subsidiaries or affiliates, as may be required in order to perform its duties.
- 6.3 Members of the Committee will be entitled to seek independent professional advice in order to be able to perform their duties at the Company's expenses.

## **7. DUTIES**

The duties of the Committee are as follows:-

- 7.1 be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- 7.2 review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 7.3 develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- 7.4 monitor integrity of the Company's financial statements and 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 reviewing these 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 Listing Rules and legal requirements in relation to financial reporting;
- 7.5 regarding paragraph 7.4 above:-
- (i) Members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice 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 the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- 7.6 review the group's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the group's risk management and internal control systems;

- 7.7 discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- 7.8 consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 7.9 where an internal audit function exists, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- 7.10 review the group's financial and accounting policies and practices;
- 7.11 review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 7.12 ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.13 review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- 7.14 act as the key representative body for overseeing the Company's relations with the external auditor;
- 7.15 report to the Board on above matters; and
- 7.16 consider other topics, as defined by the Board.

**- The End -**