

# WO KEE HONG (HOLDINGS) LIMITED

## AUDIT COMMITTEE

### Terms of Reference

Approved by the Board on March 28, 2012

#### 1. Constitution

The board (the “**Board**”) of directors (the “**Directors**”) of Wo Kee Hong (Holdings) Limited (the “**Company**”) resolved to establish a Committee of the Board to be known as the Audit Committee (the “**Committee**”) on December 31, 1998. The constitution of the Committee shall comply with the requirements of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”)(the “**Listing Rules**”) from time to time.

#### 2. Membership

2.1 The Committee shall be appointed by the Board from amongst the non-executive Directors and a majority of the members should be independent non-executive Directors. The Committee shall consist of not less than three members, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

2.2 The Chairman of the Committee shall be appointed by the Board and shall be an independent non-executive Director.

2.3 The company secretary shall be the secretary of the Committee.

2.4 The appointment of the members or secretary of the Committee may be revoked, or additional members may be appointed to the Committee by separate resolutions passed by the Board and by the Committee.

#### 3. Attendance at meetings

3.1 The Finance Director, the Head of Internal Audit of the Company (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings. However, at least twice a year the Committee shall meet with the external and internal auditors without executive Board members presence.

3.2 The quorum of the Committee meeting shall be two members of the Committee.

3.3 A Committee member may not appoint any alternate to attend any Committee meeting.

#### **4. Proceedings of the Committee**

- 4.1 Unless otherwise agreed by all the Committee members, a meeting shall be called by at least seven days' notice.
- 4.2 A Committee member may and, on the request of a Committee member, the secretary to the Committee shall, at any time summon a Committee meeting. Notice shall be given to each Committee member in person, orally or in writing or by telephone or by telex or telegram or facsimile transmission or e-mail at the telephone number or facsimile number or address or e-mail address from time to time notified to the secretary by such Committee member or in such other manner as the Committee members may from time to time determine.
- 4.3 Any notice given orally shall be confirmed in writing as soon as practicable and before the meeting.
- 4.4 Notice of meeting shall state the purpose, time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Committee for the purposes of the meeting. In respect of regular meetings of the Committee to be held as mentioned in paragraph 5 below, and so far as practicable in all other meetings of the Committee, the agenda and accompanying papers shall be sent in full to all the members of the Committee in a timely manner and at least 3 business days before the intended date of the meeting of the Committee (or such other period as all the Committee members may agree).

#### **5. Frequency of meetings**

Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

#### **6. Committee's Resolutions**

A resolution in writing signed by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held and may consist of several documents in like form each signed by one or more of the members of Committee. Such resolution may be signed and circulated by fax or e-mail. This provision is without prejudice to any requirement under the Listing Rules for a Board or Committee meeting to be held.

#### **7. Authority**

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

- 7.2 The Committee is authorised by the Board to be provided with sufficient resources to perform its duties, including obtaining outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## **8. Duties**

The duties of the Committee shall be:

- (a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;
- (b) to discuss with the external auditors, before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;
- (c) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.
- (d) to develop and implement policy on engaging external auditors to supply non-audit services; and report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (e) to monitor integrity of the Company's financial statements and annual report and accounts and interim report, and review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, focusing particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumption and any qualifications;
  - (v) compliance with accounting standards;
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
  - (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group and whether such connected transactions, if any, have been carried out in accordance with the terms of the agreement governing such transactions;
  - (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosures give a fair view of the Group's financial conditions; and
  - (ix) the cashflow position of the Group;
- (f) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

- (g) to consider any significant or unusual items that are, or may need to be, reflected in the interim and annual reports and accounts and give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, auditors of the Company and compliance officer (if any);
- (h) to review the Group's financial and accounting policies and practices at least once a year;
- (i) to review the external auditors' management letter, any material queries raised by the auditors to the management about accounting records, financial accounts or systems of control and management's response and ensure that the Board will provide a timely and effective response to the issues raised in the external auditors' management letter;
- (j) to review the Company's financial control, internal control and risk management systems;
- (k) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system, and the discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (l) (where an internal audit function exists) to 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 review and monitor its effectiveness;
- (m) to consider major investigation findings on internal control matters and management's response to these findings;
- (n) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions;
- (o) to act as the key representative body for overseeing the Company's relations with the external auditors;
- (p) to perform the corporate governance functions:
  - (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
  - (ii) to review and monitor the training and continuous professional development of Directors and senior management;
  - (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
  - (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

- (v) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report;
- (q) to report to the Board on the matters relating to Audit Committee set out in Code on Corporate Governance Practices issued by the Stock Exchange; and
- (r) to consider other topics, as defined by the Board.

## **9. Annual General Meeting**

The Chairman of the Committee or, by agreement of the Committee, his delegate shall attend the Annual General Meeting prepared to respond to questions from any shareholder of the Company on the Committee's activities.

## **10. Reporting procedures**

- 10.1 The Committee shall report to the Board. At the next meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report the findings and recommendations of the Committee to the Board.
- 10.2 Full minutes of meetings of the Committee should be kept by the secretary of the meeting and draft and final versions of minutes of the Committee shall be sent to all Committee members for their comment and records within a reasonable time after the meeting.
- 10.3 The Committee should report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as restrictions on disclosure due to regulatory requirements).

## **11. Availability of the terms of reference**

The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website.

## **12. Continuing application of the Bye-laws of the Company**

The Bye-laws of the Company regulating the meetings and proceedings of the Directors of the Company so far as the same are applicable and are not replaced by the provisions in these terms of reference shall apply to the meetings and proceedings of the Committee.

*Note : For details of the terms of reference of the audit committee, please refer to "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants in February 2002.*

*The Chinese version is for reference only. Should there be any discrepancies, the English version will prevail.*