

# **POLYTEC ASSET HOLDINGS LIMITED**

(the “Company”)

## **Terms of Reference of Audit Committee**

### **1. Constitution**

- 1.1 The Board of Directors of the Company (the “**Board**”) resolved on 1 March 2000 to establish a committee of the Board to be known as the Audit Committee (hereinafter referred to as the “**Committee**”).
- 1.2 The Committee is established under delegation from the Board pursuant to Article 137 of the Company’s Articles of Association.

### **2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board from amongst the Non-executive Directors and shall consist of not less than three members. A majority of the members should be Independent Non-executive Directors and at least one of whom should have appropriate professional qualifications or accounting or related financial management expertise.
- 2.2 The Board shall nominate one of the Independent Non-executive Directors as the chairman of the Committee.
- 2.3 A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the Committee for a period of one year commencing on the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.

### **3. Secretary**

- 3.1 The Company Secretary or such other person with appropriate qualification and experience as appointed by the Committee from time to time shall act as the Secretary of the Committee.

### **4. Frequency and proceedings of meetings**

- 4.1 The Committee shall meet at least twice every year. Additional meetings shall be held as the work of the Committee demands.

- 4.2 The chairman of the Committee may convene additional meetings at his discretion.
- 4.3 The external auditors may request a meeting if they consider it necessary.
- 4.4 The quorum of a meeting shall be two members of the Committee who are Independent Non-executive Directors.
- 4.5 The Committee may, from time to time, invite advisers or such other persons as may be deemed necessary, to attend meetings.
- 4.6 Representatives of the external auditors shall normally attend meetings. Other Board members may also participate.
- 4.7 At least once a year the Committee shall meet with the external auditors without any Executive Directors being present except by invitation of the Committee.
- 4.8 Proceedings of meetings of the Committee shall be governed by the provisions of Article 139 of the Articles of Association of the Company.
- 4.9 Minutes shall be kept by the Secretary of the Committee. Draft and final versions of minutes shall be circulated to all members for their comments and records respectively, in both cases within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection.

## **5. Annual General Meeting**

- 5.1 The chairman of the Committee or another member of the Committee shall attend the Company's annual general meeting and be prepared to respond to shareholders' questions on the Committee's activities and their responsibilities.

## **6. Authority**

- 6.1 The Committee is authorized by the Board to investigate any activity within the terms of reference. It is authorized to seek any information it requires from 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 seek independent professional advice in appropriate circumstances to discharge its duties.  
*(Note: Arrangement to seek professional advice could be made through the Company Secretary.)*
- 6.3 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee will provide a statement explaining its recommendation to the Board who shall include such statement and also the reason(s) why the Board has taken a different view in the Corporate Governance Report.

6.4 The Committee is to be provided with sufficient resources to discharge its duties.

## **7. Responsibilities, powers and functions**

The Responsibility of the Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting and internal control system. The Committee shall have the following responsibilities, powers and functions:

### *Relationship with the external auditors*

- 7.1 to make 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' independence and objectivity;
- 7.3 to review and monitor the effectiveness of the audit process in accordance with applicable standard and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 7.4 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*

- 7.5 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 judgements contained in them. 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and other legal requirements in relation to financial reporting;

7.6 in regard to 7.5 above:-

- (i) to liaise with the Company’s Board and senior management;
- (ii) to meet, at least once a year, with the Company’s external auditors; and
- (iii) to 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 staff responsible for the accounting and financial reporting function, compliance officer (or person performing the same duties) or external auditors;

*Oversight of the Company’s financial reporting system and internal control procedure*

- 7.7 to review the Company’s financial controls, internal control and risk management systems;
- 7.8 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 including the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget;
- 7.9 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;
- 7.10 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;
- 7.11 to review the financial and accounting policies and practices of the Company and its subsidiaries;
- 7.12 to review the external auditor’s management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management’s responses;

- 7.13 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 7.14 to report to the Board on the matters set out in the terms of reference; and
- 7.15 to consider other topics, as requested by the Board.

## **8. Reporting procedures**

- 8.1 The Secretary shall circulate the minutes of meetings and reports, if any, of the Committee to all members of the Board.
- 8.2 The Committee shall report to the Board on its decisions and recommendations, unless there are legal or regulatory restrictions on their ability to do so.
- 8.3 At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year in discharging its responsibilities in its review of the quarterly (if prepared for publication), half-yearly and annual results and system of internal control, and its other duties set out in the Code of Corporate Governance Practices of the Listing Rules.

## **9. Publication of the Terms of Reference**

- 9.1 A copy of the terms of reference will be made available to any person without charge upon request and the terms of reference will be posted on the website of the Company, where appropriate.

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Approved by the Board on : 7 April 2009

(These Terms of Reference supersede those adopted by the Board on 30 June 2005.)

Certified True Copy

***Signed***

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Or Wai Sheun, Chairman  
For and on behalf of  
Polytec Asset Holdings Limited