



## TAO HEUNG HOLDINGS LIMITED

稻香控股有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 573)**

### **TERMS OF REFERENCE FOR AUDIT COMMITTEE**

**(Approved by the Board on 9 June 2007)**

#### **Purpose**

1. The purpose of the Audit Committee is to assist the board of directors (the “**Board**”) of Tao Heung Holdings Limited (the “**Company**”) in considering how the Board should apply financial reporting and internal control principles and for maintaining an appropriate relationship with the Company’s auditors.

#### **Membership**

2. The Audit Committee shall comprise a minimum of three members consisting of non-executive directors only and a majority of which must be independent non-executive directors of the Company. The Audit Committee must comprise of at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) (as amended from time to time). A quorum shall be two members.
3. The chairman of the Audit Committee (the “**Chairman**”) shall be appointed by the Board and must be an independent non-executive director.

#### **Attendance at meetings**

4. The financial director of the Company, the head of internal auditor and a representative of the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance. However, at least once a year the Audit Committee shall meet with the external and internal auditors without Board members present.
5. The company secretary of the Company (the “**Company Secretary**”) shall be the secretary of the Audit Committee.

#### **Frequency of meetings**

6. The Audit Committee shall meet at least twice annually or more frequently if circumstances require and shall act by unanimous written consent. The Board, any audit committee member and the external auditors may request a meeting if they consider that one is necessary.

## **Authority**

7. The Audit 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 and all employees will be directed to co-operate with any request made by the Audit Committee.
8. The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise at meetings of the Audit Committee if it considers this necessary.

## **Duties**

9. The duties of the Audit Committee shall include the following:-
  - (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 standards. The Audit 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 policies regarding the engagement of an external auditor to supply non-audit services. For this purpose, an 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 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 the 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 judgments contained in them. In this regard, 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 Audit Committee should focus particularly on:-
    - (i) any changes in accounting policies and practices;
    - (ii) major judgmental areas;
    - (iii) significant adjustments resulting from the 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) to review the Company's financial controls, internal control and risk management systems;
- (f) to discuss with management the system of internal control and ensure that management has discharged its duty by having an effective internal control system;
- (g) 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;
- (h) 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;
- (i) to review the Group's financial and accounting policies and practices;
- (j) 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;
- (k) to ensure that the Board will provide a timely response to the issues raised by external auditors;
- (l) to report to the Board on the matters set out in the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules);
- (m) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;
- (n) to act as the key representative body for overseeing the Company's relationship with the external auditor;
- (o) to review ongoing connected transactions of the Company and ensure compliance with terms of approval by shareholders of the Company;
- (p) to work with the Company's licensing department, review the Group's compliance with licensing requirements based on its internal control manuals on a quarterly basis and to disclose any may findings (if any) in the Company's annual report, to conduct regular reviews and discuss with the Group's licensing department on a quarterly basis to monitor and ensure that all the Group's licenses are properly applied for, maintained and renewed and to appoint independent external consultants to assist its review whenever necessary; and
- (q) to consider such other matters as the Board may from time to time determine.

### **Reporting Procedures**

10. The Audit Committee shall circulate the minutes of meetings of the Audit Committee to all members of the Board as soon as practicable after the conclusion of any meeting of the Audit Committee.