



## **Audit Committee**

**Terms of Reference adopted on 14 September 2005 and  
revised on 7 April 2009 and 22 March 2012**

### **A. Constitution**

- A.1 The Audit Committee was established by the Board.
- A.2 These terms of reference of the Audit Committee were approved by the Board on 14 September 2005 and revised on 7 April 2009 and 22 March 2012. The Board has the authority to review and amend these terms of reference from time to time.

### **B. Membership**

- B.1 The Audit Committee shall comprise non-executive Directors only and shall consist of a minimum of three (3) Members (including its chairman), 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 the Listing Rules, or such other composition allowed under the Listing Rules as the Board may approve from time to time. The majority of the Members must be independent non-executive Directors.
- B.2 The chairman of the Audit Committee shall be appointed by the Board. The Audit Committee must be chaired by an independent non-executive Director.

### **C. Term**

- C.1 The term of each Member shall be determined by the Board. If a Member ceases to be a Director, then his office as a Member shall ipso facto cease.

**D. Meetings**

- D.1 The quorum for a meeting of the Audit Committee shall be two Members.
- D.2 Members may participate either in person or through other electronic means of communication and active participation is expected.
- D.3 Audit Committee meetings shall be held at least half-yearly. The Audit Committee shall meet with the external auditor at least twice a year. The external auditor may request a meeting if they consider that one is necessary.
- D.4 Notice of at least 7 days shall be given to all Members. An agenda and accompanying meeting papers shall be sent to all Members at least 3 days before the intended date of the Audit Committee meeting (or such other period as agreed).
- D.5 Senior Management of the Company responsible for the accounting and financial reporting function and the external auditor shall normally attend Audit Committee meetings. Other Board members shall also have the right of attendance.
- D.6 The company secretary of the Company shall be the Secretary of the Audit Committee.
- D.7 Full minutes of Audit Committee meetings shall be kept by the Secretary. Draft and final versions of minutes of the Audit Committee meetings should be sent to all Members for their comment and records respectively, in both cases within a reasonable time after the meetings.
- D.8 Members (deciding by majority) have the power to regulate and determine the proceedings of their Audit Committee meeting, including – without limitation – the power to accept short (or dispense with) notice of meeting, abridge any time period. A resolution in writing signed by all Members for the time being shall be as effective for all purposes as a resolution of the Members passed at a meeting duly convened, held and constituted. All Members shall keep materials and information of the Audit Committee at all times confidential.

**E. Authority**

- E.1 The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and such employee will be directed to co-operate with any request made by the Audit Committee.

- E.2 In discharging its duties, the Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice if it considers this necessary.
- E.3 Where the Board disagrees with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Company should include in the Corporate Governance Report a statement from the Audit Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

## **F. Duties**

The duties of the Audit Committee include the following:

### ***Relationship with the Company's auditors***

- (a) To be primarily responsible for making recommendations 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 its resignation or dismissal.
- (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 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 Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.
- (d) To act as the key representative body for overseeing the Company's relations with the external auditor.

***Review of the Company's financial information***

- (e) To 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 Audit 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 other legal requirements in relation to financial reporting.
  
- (f) Regarding (e) above:
  - (i) Members should liaise with the Board and senior management (including those who are responsible for the accounting and financial reporting function of the Company) and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports 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 auditor.

***Oversight of the Company's financial reporting system and internal control procedures***

- (g) To review the Company's financial controls, internal control and risk management systems.
  
- (h) To discuss the internal control system with the management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

- (i) To consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings.
- (j) To review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action.
- (k) 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 its effectiveness.
- (l) To review the Group's financial and accounting policies and practices.
- (m) To 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.
- (n) To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- (o) To report to the Board on the matters set out in these duties of the Audit Committee.
- (p) To consider other topics, as defined by the Board.
- (q) The chairman of the Audit Committee or in his absence, another Member or failing him, his duly appointed delegate, shall be available to answer questions at the annual general meeting.

## **G. Reporting procedures**

- G.1 The Secretary will circulate the minutes of Audit Committee meetings, written resolutions of the Audit Committee, reports of the Audit Committee and other relevant information to the Board.

G.2 The Audit 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 a restriction on disclosure due to regulatory requirements).

## **H. Miscellaneous**

H.1 These terms of reference shall be made available by including publication on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

### ***Definitions:***

“Audit Committee”	:	audit committee of the Company
“Board”	:	board of directors of the Company
“Company”	:	K. Wah International Holdings Limited
“Director(s)”	:	Director(s) of the Company
“Exchange”	:	The Stock Exchange of Hong Kong Limited
“Group”	:	Company and its subsidiaries
“Listing Rules”	:	Rules Governing the Listing of Securities on the Exchange
“Member(s)” and “Secretary”	:	respectively, member(s) and secretary of the Audit Committee