



**KH INVESTMENT HOLDINGS LIMITED**  
**嘉 滙 投 資 控 股 有 限 公 司\***

(the "Company")

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8172)**

**TERMS OF REFERENCE**

**OF**

**AUDIT COMMITTEE**

(the "Committee")

(Adopted on 26 March 2012)

**Membership**

1. The Committee shall consist of three independent non-executive directors appointed by the board of directors (the "Board") from time to time.
2. The Board shall nominate one of the three members as the chairman of the Committee.
3. The company secretary or any other person appointed by the Committee from time to time shall act as the secretary of the Committee.
4. 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 at least one year from the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is later.

**Attendance at meeting, and frequency and proceedings of meetings**

5. The Committee should meet at least four times per year. Additional meetings should be held as the work of the Committee demands. The external auditors may request to attend the meeting if they consider that one is necessary, and at least twice a year the Committee shall meet with the external auditors, and the management of the company should be absent from such meeting.
6. In addition, the chairman of the Committee may convene additional meetings at his discretion.

*\* For identification purpose only*

7. The quorum for a meeting shall be two members.

8. Proceedings of meetings of the Committee shall be governed by the provisions in the Bye-laws of the Company.

#### **Minutes and Records**

9. Full minutes of the Committee meetings should be kept by the secretary of the meeting.

10. Draft and final versions of minutes of the meeting should be sent to all Committee members for their comments and records within a reasonable time after the meeting.

#### **Authority**

11. The Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate with the Committee. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

12. The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

13. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Committee will arrange for the Corporate Governance Report in the Annual Report to include an explanation of the Committee's view and the reasons why the Board has taken a different view.

14. The Committee should be provided with sufficient resources to discharge its duties.

#### **Responsibility**

15. The Committee is to serve as a focal point for communication between directors, the external auditors and the internal auditors, if any, as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.

16. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "group"), and as to the adequacy of the external and internal audits.

#### **Duties, powers and functions**

17. The Committee is to:

(a) make recommendations to the Board on the appointment, reappointment and removal of the external auditors, the performance of the external auditors, and approval of the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal;

(b) prior to the commencement of audit, discuss with the auditors the nature and the scope of the external audit, and review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, including the engagement letter. The Committee should understand the factors considered by the external auditors in determining their audit scope. The external auditors' fees is to be negotiated by management, and presented to the Committee for review and approval annually;

(c) monitor integrity of the Company's annual, interim and quarterly financial reports and accounts and to review significant financial reporting judgements contained in them, and prior to submission to the Board, the review of these documents should be with particular focus on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption and any qualifications;

(v) compliance with accounting and auditing standards;

(vi) compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting; and

(vii) regarding (i) to (vi) above, consider any significant or unusual items that are, or may need to be, reflected in the report and accounts and 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;

(d) review the Company's financial controls, internal control and risk management systems;

(e) 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;

(f) review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

(g) evaluate the cooperation received by the external auditors, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditors to the group's needs; inquire the external auditors as to whether there have been any disagreements with management which, if not satisfactorily resolved, would result in the issue of a qualified report on the group's financial statements;

(h) seek from the external auditors, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;

(i) discuss with the external auditors any recommendations arising from the audit (if necessary in the absence of management); and review the draft management letter including management's response to the points raised;

(j) ensure that the Board will provide a timely response to issues raised in the external auditors' management letter;

(k) act as the key representative body for overseeing the Company's relations with the external auditors;

(l) review the scope and results of internal audit procedures, ensure co-ordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing within the group;

(m) develop and implement policy on engaging external auditors to supply non-audit services. For this purpose, "external auditors" 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;

(n) discuss with management the scope and quality of systems of internal control including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(o) apprise the Board of significant developments in the course of performing the above duties;

(p) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;

(q) review the findings on internal investigations into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations and consider management's response to these findings;

(r) agree with the Board the policy relating to the hiring of employees or former employees of the external auditors and monitor the application of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditors' judgment or independence in respect of an audit;

(s) 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 proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up action;

(t) review the group's financial and accounting policies and practices;

(u) consider other topics, as requested by the Board; and

(v) perform such other duties under the GEM Listing Rules in effect from time to time.

#### **Reporting Procedures**

18. The Committee should report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report to the Board on the findings and recommendations of the Committee. At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year.

#### **Publication of terms of reference**

19. 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 Company and The Stock Exchange of Hong Kong Limited's website.

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