



LERADO GROUP (HOLDING) COMPANY LIMITED
(隆成集團(控股)有限公司)*
(Incorporated in Bermuda with limited liability)
(Stock Code: 1225)

Audit Committee – Terms of Reference

1. Overall Objectives

The audit committee is appointed by the board of directors to assist the board in discharging its oversight responsibilities. The audit committee will oversee the financial reporting process to ensure the quality, transparency and integrity of published financial information. The audit committee will also review the effectiveness of the company's financial controls, internal controls and risk management system, the independent audit process including recommending the appointment and assessing the performance of the external auditors, the company's process for monitoring compliance with laws and regulations affecting financial reporting.

2. Authority

The board authorises the audit committee, within the scope of its responsibilities, to:

- 2.1 Perform activities within the scope of its terms of reference.
- 2.2 Engage independent counsel and other advisers as it deems necessary to carry out its duties.
- 2.3 Ensure the attendance of company officers at meetings as appropriate.
- 2.4 Have unrestricted access to members of management, employees and relevant information which are necessary for the member of the audit committee to perform their duties.
- 2.5 Make recommendations to the board on the appointment, retention and oversight of the work of the external auditor and approve the remuneration and terms of engagement of the external auditor.

3. Organisation

3.1 Membership

- 3.1.1 The board of directors will nominate the chairman, who must be an independent non-executive director (“INED”), and the members of the audit committee.
- 3.1.2 The audit committee will comprise non-executive directors only and the majority of the audit committee members will be INEDs.
- 3.1.3 The audit committee will comprise a minimum of three members, at least one of whom is an INED with 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”).
- 3.1.4 A quorum of any meeting will be at least two members present in person.
- 3.1.5 The secretary of the company (or his/her delegate) shall be the secretary of the audit committee.

3.2 Meetings

- 3.2.1 The audit committee may invite such other persons (e.g. external auditors) to its meeting.
- 3.2.2 Meetings shall be held not less than two times a year.
- 3.2.3 Special meetings may be convened as required.
- 3.2.4 Notice of any meetings has to be given at least 14 days prior to any such meeting being held, unless all members unanimously waive such notice.
- 3.2.5 Resolutions of the committee shall be passed by a majority of votes.
- 3.2.6 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.
- 3.2.7 The secretary shall circulate the agenda and supporting documentation to the audit committee members a reasonable period in advance of or as soon as practicable before each meeting.
- 3.2.8 The secretary shall circulate the minutes of meetings to members of the committee. Minutes shall be kept by the secretary of the committee and shall be open for directors’ inspection.

- 3.2.9 The audit committee will meet with the external auditors at least twice a year.

3.3 Annual General Meeting

The Chairman of the audit committee or in his/her absence, another member (who must be an INED) of the audit committee, shall attend the Company's annual general meeting and be prepared to respond to shareholders' questions on the audit committee's activities and their responsibilities.

4. Roles and Responsibilities

The audit committee will:

4.1 Internal Control

- 4.1.1 Review the systems of financial control, internal control and risk management.
- 4.1.2 Discuss with the management the system of internal control and ensure the management has discharged 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.
- 4.1.3 Consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.
- 4.1.4 Review the Group's financial and accounting policies and practices. Special meetings may be called at the discretion of the Chairman or the request of senior management to review significant control or financial issues.
- 4.1.5 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; ensure that the board will provide a timely response to the issues raised in the external auditor's management letter.
- 4.1.6 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.

4.2 Financial Reporting

- 4.2.1 Gain an understanding of the current areas of greatest financial risk and how these are being managed.
- 4.2.2 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.
- 4.2.3 Review and monitor integrity of financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports and review significant financial reporting judgements contained in them prior to submission to the board. Focus particularly on any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions and any qualifications, compliance with accounting standards and compliance with the Listing Rules and legal requirements in relation to financial reporting.
- 4.2.4 Meet with the management and the external auditors to review the financial statements, the key accounting policies and judgements and the results of the audit.
- 4.2.5 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 qualified accountant and the auditors.

4.3 Compliance with Laws and Regulations

- 4.3.1 Review the effectiveness of the system for monitoring compliance with laws and regulations.
- 4.3.2 Obtain regulate updates from management regarding compliance matters that may have a material impact on the company's financial statements or compliance policies.
- 4.3.3 Be satisfied that all regulatory compliance matters, related to the business of the company, have been considered in the preparation of the financial statements.

4.4 Working with external auditors

- 4.4.1 Review the professional qualification of the auditors.
- 4.4.2 Consider the independence and objectivity of the external auditors, any potential conflicts of interest, and the effectiveness of the audit process in

accordance with applicable standards. Discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences.

- 4.4.3 Review on an annual basis the performance of the external auditors, particularly the effectiveness of the audit process in accordance with applicable standard and make recommendations to the board for the appointment, reappointment or termination of the appointment of the external auditors and to approve their remuneration and terms of engagement.
- 4.4.4 Review the external auditors' proposed audit scope and approach for the current year in the light of the company's present circumstances and changes in regulatory and other requirements.
- 4.4.5 Discuss with the external auditors the appropriateness of the accounting policies applied in the company's financial reports and whether they are considered as aggressive, balanced or conservative.
- 4.4.6 Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately; ensure the auditors have access to the chairman of the audit committee when required.
- 4.4.7 Develop and implement policies for the provision of non-audit services by the external auditor. For this purpose, "external auditors" 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 to be part of the audit firm nationally or internationally. Report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

4.5 Reporting Responsibilities

- 4.5.1 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.
- 4.5.2 Prepare any reports required by law or the Listing Rules, or requested by the board, including a report on the audit committee's activities and duties to be included in the section on corporate governance in the annual report.

4.6 Other Responsibilities

- 4.6.1 Review arrangements employees of the company can use, in confidence,

to raise concerns about possible improprieties in financial reporting, internal control or other matters. Ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

- 4.6.2 Act as the key representative body for overseeing the company's relations with the external auditor.

Revised on 13 December 2011.

* *for identification purposes only*