



TRAUSON HOLDINGS COMPANY LIMITED

創生控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 325)

THE TERMS OF REFERENCE OF THE AUDIT COMMITTEE (THE “COMMITTEE”)

Members

1. The Committee should comprise three directors appointed by the board of directors of the Company (the “Board”) from time to time. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), all the members of committee should be non-executive directors, of which the majority should be independent non-executive directors. One of the members should be an independent non-executive director who is a qualified accountant with the appropriate experience or a person with the related financial management specialty.
2. A former partner of the Company’s existing auditing firm should be prohibited from acting as a member of the Committee for a period of 1 year from the date of his ceasing:
 - (a) He/She to be a partner of that firm; or
 - (b) He/She to have any financial interest in the firm,whichever is later.
3. The chairman of the Committee should be an independent non-executive director appointed by the Board.
4. The secretary of the Committee should be the secretary of the Company.

Frequency and Procedure of Meetings

5. The Committee should convene at least two meetings a year and may convene additional meetings as and when required.
6. The chairman of the Committee may exercise his discretion to convene additional meetings.

7. The quorum of each meeting should be any two members of the Committee.
8. The procedure of the Committee meeting should comply with Article 20 of the Company's Articles of Association.
9. Within a reasonable period of time after the Committee meetings, draft versions of minutes should be sent to all Committee members for comments, and the final version duly signed by the chairman of the Committee should also be circulated to all Committee members for records. Full minutes of Committee meetings should be kept by the secretary of the Committee and be open for inspection by directors of the Company.

Authorities

10. The Committee is authorised to conduct any investigation within its terms of reference and all the employees should be instructed to cooperate with the Committee. The Board authorises that the Committee may have access to external legal or other independent professional advice as and when required, and may invite external parties with related experience and professional knowledge to attend the Committee meetings.
11. The Committee should report to the Board on any matters relating to suspected fraud and misconduct, failure to perform internal control or suspected violation of laws, rules and regulations which have come to its attention and the importance of which would attract the Board's attention.
12. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the corporate governance report of its annual report a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.
13. The Committee should be provided with sufficient resources to perform its duties.

Duties

14. The Committee shall act as the communication channel with other directors, external auditors and internal auditors relating to financial and related reporting, internal control, external and internal audit and any other matter resolved by the Board from time to time.
15. The Committee shall independently review and monitor the financial reports to ensure compliance with the rules of the Company and its subsidiaries (together as the "Group") regarding the effectiveness of the Group's internal control and the sufficiency of the Group's external and internal audit, so as to assist the Board in performing its duties.

16. The Committee shall act as the key representative body for overseeing the Group's relations with the external auditor.

Responsibilities and Functions

17. The Committee should:

- (a) Be familiar with the Group's financial reporting standards and practices adopted in preparing its financial reports;

Relationship with the Company's auditors

- (b) 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 and dismissal;
- (c) Review, together with the Group's management and the external and internal auditors, the adequacy and effectiveness of the Group's financial control, internal control and risk management systems (including financial, operational and compliance controls), as well as the directors' statement to be set out in the annual accounts prior to any Board endorsement;
- (d) Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. The Committee should understand the factors considered by the external auditor in confirming its audit scope. The management shall be responsible for negotiating the fees payable to the external auditor and shall submit the same to the Committee for review and approval annually;
- (e) Discuss any suggestions raised by the external auditor in relation to the audit in the absence of management as and when required;
- (f) Assess the cooperation and assistance provided to the external auditor, including access to all the records, data and information required, obtain management's view on the external auditor's responses to the Group's requests, make inquiries as to whether there are any disagreement between the external auditor and management, which, unless satisfactorily resolved, would cause the external auditor to issue a qualified opinion on the Group's financial statements;
- (g) Obtain from the auditor firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for providing non-audit services and for rotation of audit partners and staff;

- (h) 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (i) Other than tax related services, it is generally prohibited to engage the external auditor to provide any non-audit service. If there is a compelling rationale to engage the external auditor based on its unique profession knowledge in certain area, such engagement shall be approved by the Committee in advance;

Review of the Company’s Financial Information

- (j) Monitor integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
 - (i) any changes on 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 legal requirements in relation to financial reporting;
- (k) Regarding (j) above:
 - (i) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company’s auditors; and
 - (ii) the 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 auditors;

- (l) Review any draft statement before Board approval;

Oversight of the Company's Financial Reporting Policy and Internal Control Procedures

- (m) Review the Company's financial controls, internal control and risk management systems;
- (n) Discuss the internal control system with 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;
- (o) Consider major investigation findings on internal control matters as delegated to it by the Board or on the Committee's own initiative and management's response to these findings;
- (p) 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;
- (q) Review the Group's financial and accounting policies and practices;
- (r) 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;
- (s) Ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (t) Make recommendations to the Board regarding any appropriate expansion of or change in the Committee's terms of reference;
- (u) Review the internal investigation findings regarding any matter relating to suspected fraud and misconduct, failure to perform internal control or suspected violation of laws, rules and regulations;
- (v) Consider agreeing with the Board the Company's policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The Committee should then be in a position to consider whether there has been or appears to be any impairment of the auditor's judgement or independence for the audit;

- (w) 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 the proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
 - (x) Report to the Board on the matters in the provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules; and
 - (y) Consider other topics, as defined by the Board.
18. The Committee should make available its terms of reference, explaining its role and authority delegated by the Board by including them on the website of The Stock Exchange of Hong Kong Limited and the Company's website.

Reporting Procedure

19. The Committee should report to the Board regularly. At the Board meeting convened after each Committee meeting, the chairman of the Committee should report its investigation findings and suggestions. The Committee should submit at least one report to the Board annually on its work and investigation findings during the year.

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