



New Century Group Hong Kong Limited
新世紀集團香港有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 234)

AUDIT COMMITTEE - TERMS OF REFERENCE

1. Constitution

The board of directors (the “Board”) of New Century Group Hong Kong Limited (the “Company”) resolved to establish a committee of the Board known as the Audit Committee (the “Committee”) on 23 August 1999.

2. Membership

2.1 Members of the Committee shall be appointed by the Board from amongst the non-executive directors of the Company only and shall comprise a minimum of three members, 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 rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The majority of the committee members must be independent non-executive directors.

2.2 The chairman of the Committee shall be appointed by the Board and must be an independent non-executive director.

2.3 The company secretary of the Company shall be the secretary of the Committee.

2.4 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 two years from the date of the person ceasing:

- (a) to be a partner of the firm; or
- (b) to have any financial interest in the firm,

whichever is later.

** For identification purpose only*

3. Quorum

The quorum for meetings of the Committee shall be two members.

4. Attendance at meetings of Committee

The Committee may invite other members of the Board, any senior officers and representatives of the external auditor to attend meetings of the Committee.

5. Frequency of meetings

Meetings shall be held not less than twice a year. The external auditors or any members of the Committee may request a meeting if they consider necessary.

6. Proceedings at meetings

Unless otherwise specifically provided for in these terms of reference, all of the provisions of the Bye-laws of the Company regulating meetings and proceedings of the Board shall, mutatis mutandis, govern the meetings and proceedings of the Committee.

7. Authority

7.1 The 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 are directed to co-operate with any requests of the Committee.

7.2 The Committee is authorised by the Board to obtain external legal or other independent professional advice at the Company's expense and to secure the attendance at meetings of external parties with relevant experience and expertise if it considers necessary.

7.3 The Committee should be provided with sufficient resources to perform its duties.

8. Duties

The duties of the Committee shall be:

Relationship with the Company's auditor

8.1 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;

- 8.2 to 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; and
- 8.3 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 Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company’s financial information

- 8.4 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 judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
- (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 8.5 In respect of paragraph 8.4 above:
- (a) 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 auditor; and
 - (b) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report 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 (if any) or the Company’s auditor;

Oversight of the Company's financial reporting system, risk management and internal control systems

- 8.6 to review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- 8.7 to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. 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;
- 8.8 to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 8.9 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;
- 8.10 to review the Group's financial and accounting policies and practices;
- 8.11 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;
- 8.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 8.13 to report to the Board on the matters in these terms of reference; and
- 8.14 to consider other topics, as defined by the Board;

Other duties

- 8.15 to 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 that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- 8.16 to act as the key representative body for overseeing the Company's relations with the external auditor.

9. Reporting procedures

The secretary of the Committee shall send the draft and final versions of minutes of the Committee meetings to all members of the Committee for their comment and records within a reasonable time after the meeting. Thereafter, the secretary shall circulate the minutes of meetings of the Committee to all members of the Board. Full minutes of the Committee should be kept by the secretary of the Committee.