CITYCHAMP WATCH & JEWELLERY GROUP LIMITED

冠城鐘錶珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

AUDIT COMMITTEE
TERMS OF REFERENCE

1. Membership

1.1 The audit committee (the "**Committee**") shall be appointed by the board of directors (the "**Board**") of Citychamp Watch & Jewellery Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") and shall be made up of at least three members (the "**Members**").

1.2 All Members shall be non-executive directors. The majority of which shall be independent non-executive directors ("**INEDs**") and at least one of whom shall have 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**").

1.3 Only Members of the Committee have the right to attend Committee meetings. Other individuals may be invited to attend all or part of any meeting as and when appropriate.

1.4 The chairman of the Committee (the "**Committee Chairman**") shall be appointed by the Board and must be an INED. In the absence of the Committee Chairman, the remaining Members present shall elect one of the Members to chair the meeting.

1.5 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 his ceasing:

(a) to be a partner of the firm; or

(b) to have any financial interest in the firm,

whichever is later.

2. Secretary

2.1 The company secretary or his/her nominee shall act as the secretary of the Committee.

2.2 The Committee may from time to time appoint any other person with appropriate qualification and experience as the secretary of the Committee.

3. Quorum, Attendance at Meetings and Resolutions

3.1 The quorum necessary for the transaction of business shall be two Members, one of whom shall be an independent non-executive director. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

3.2 Members may participate in a meeting in person or by electronic means of communication, including but not limited to a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.

3.3 Resolutions of the Committee at any meetings shall be passed by a majority of votes of the Members present.

3.4 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.

4. Frequency of Meetings

The Committee shall meet at least twice each year. The external auditors or any Member of the Committee may request a meeting if they consider that one is necessary.

5. Notice of Meetings

5.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its Members or at the request of external auditors if they consider it necessary.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each Member of the Committee and any other person required to attend at least three days before the date of the meeting. Supporting papers shall be sent to the Members and to other attendees as appropriate, at least three days in advance of the meeting.

6. Minutes of Meetings

6.1 The secretary of the Committee (or his/her delegate) in attendance at the meetings of the Committee shall minute in sufficient detail the matters considered and decisions reached at such meetings. The minutes shall also include any concerns raised by any Member of the Committee and/or dissenting views expressed.

6.2 Full minutes should be kept by the secretary of the Committee (or his/her delegate). Draft and final versions of minutes of the meetings shall be sent to all Members of the Committee for their comment and records within a reasonable time after the meeting. The draft is provided for Members to express their views, with the final version serving as a record. Such minutes shall be available for inspection by any Member of the Committee or the Board at any reasonable time on reasonable notice.

7. Annual General Meeting

The Committee Chairman should, as far as practicable, attend the annual general meeting and make himself available to respond to any shareholder questions on the Committee's activities.

8. Authority and Duties

The Committee shall have the following authority and duties to:

Relationship with the Company's auditors

(a) 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) 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;

(c) 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;

(d) act as the key representative body for overseeing the Company's relations with the external auditor.

Review of the Company's financial information

(e) 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:-

(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 legal requirements in relation to financial reporting;

(f) regarding (e) 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 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 or auditors;

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

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

(h) discuss the risk management and internal control system 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;

(i) 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;

(j) where an internal audit function exists, 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;

(k) review the Group's financial and accounting policies and practices;

(l) 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;

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

(n) report to the Board on the matters related to the Listing Rules; and

(o) consider other topics, as defined by the Board.

Employees' Concerns

(p) review the Company's whistleblowing policy and system that employees and those who deal with the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal controls or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

9. Reporting Responsibilities

9.1 The Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties.

9.2 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 a statement from the Committee explaining its recommendation and also the reason(s) why the Board has taken a different view.

9.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

10. Others

The Committee is authorized by the Board to:

(a) investigate any activity within its terms of reference;

(b) seek any information it requires from any employee of the Group in order to perform its duties and all employees will be directed to co-operate with any request made by the Committee;

(c) give due consideration to applicable laws and regulations, including relevant corporate governance codes and the Rules Governing the Listing of Securities on The Stock Exchange Hong Kong Limited as appropriate; and

(d) obtain sufficient resources, for instance, outside legal and other independent professional advice, at the Company's expense, in order to perform its duties.