



# **LUNG KEE (BERMUDA) HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 255)**

Website: <http://www.irasia.com/listco/hk/lkm>

## **AUDIT COMMITTEE**

### **TERMS OF REFERENCE**

#### **Constitution/Functions**

1. The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee to review and supervise the Group's financial reporting process and internal controls.

#### **Membership**

2. All the members of the Committee should be non-executive directors. The Committee must 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. The majority of the Committee members must be independent non-executive directors. A quorum shall be two members.
3. The Chairman of the Committee shall be appointed by the Board and should be an independent non-executive director.

#### **Secretary**

4. The company secretary shall be the secretary of the Committee.
5. The Committee may from time to time appoint any person with appropriate qualification and experience as the secretary of the Committee.

#### **Meetings**

6. The meetings and proceedings of the Committee are governed by the provisions contained in the Company's Bye-laws.
7. Meetings shall be held not less than twice a year. The external auditor may request a meeting if they consider that one is necessary.

## **Attendance at Meetings**

8. The Committee may invite the Group Finance Director (or person occupying the same position), the Head of Internal Audit, the other members of the Board and a representative of the external auditor to attend any meetings of the Committee. However, at least once a year the Committee shall meet with the external auditor without executive Board members present.
9. Only the members of the Committee are entitled to vote at the meetings

## **Annual General Meetings**

10. The Chairman of the Committee or in his/her absence, another member of the Committee, shall attend the Group's annual general meeting and be prepared to respond to shareholders' questions.

## **Authority**

11. 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 of the Group and all employees of the Group are directed to co-operate with any request made by the Committee.
12. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## **Duties**

13. The duties of the Committee shall be:-

### *Relationship with the Group's auditor*

- (a) 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;
- (b) to act as the key representative body for overseeing the Group's relations with the external auditor.
- (c) 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;

- (d) 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 Group’s financial information*

- (e) to monitor integrity of the Group’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 Group’s auditor; 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 Group’s staff responsible for the accounting and financial reporting function, compliance officer or auditor;

*Oversight of the Group’s financial reporting system and internal control procedures*

- (g) to review the Group’s financial controls, internal control and risk management systems;
- (h) to 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 Group’s accounting and financial reporting function;

- (i) to consider major investigations findings on 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, 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 Group, and to review and monitor its effectiveness;
- (k) to review the Group's financial and accounting policies and practices;
- (l) 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;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to review arrangements employees of the Group 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;

*Corporate governance duties*

- (o) to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board;
- (p) to review and monitor the training and continuous professional development of directors and senior management;
- (q) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- (r) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;
- (s) to review the Group's compliance with the Corporate Governance Code (Appendix 14 to the Listing Rules) and disclosure in the Corporate Governance Report;

*Other duties*

- (t) to report on all of the above matters to the Board; and
- (u) to consider other topics, as defined by the Board.

**Reporting Procedures**

14. The Committee shall report to the Board after each meeting.
15. The secretary shall circulate the minutes of meetings of the Committee to all members of the Board.