

**NGAI LIK INDUSTRIAL HOLDINGS LIMITED**  
*(incorporated in Bermuda with limited liability)*  
(Stock Code: 332)

**(the “Company”)**

**TERMS OF REFERENCE  
OF  
AUDIT COMMITTEE  
(the “Committee”)**

**Constitution**

1. The board of directors of the Company (the “Board”) has established these terms of reference (these “**Terms**”) in compliance with the Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

**Membership**

2. The Committee shall consist of a minimum of three members appointed by the Board, all of whom shall be non-executive directors. The majority of the members of the Committee shall be independent non-executive directors. At least one of the members of the Committee is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

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

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 one year 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.

5. The Company Secretary or his duly appointed nominee shall act as the Committee’s Secretary.

**Frequency and proceedings of meetings**

6. The quorum of a meeting shall be two members of the Committee. Other Board members, apart from the Committee members, have the duty to attend any Committee meetings if invited by the Committee, and they shall not be counted in the quorum.

7. The Committee shall meet at least four times a year. Additional meetings shall be held as the work of the Committee demands and the external auditors may request a meeting if they consider that a meeting with the Committee is necessary or desirable. In addition, the chairman of the Committee may convene additional meetings at his discretion.

8. Full minutes of the meetings of the Committee should be kept by the Committee’s Secretary. Draft and final versions of minutes of the meetings should be sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

9. Proceedings of meetings of the Committee shall be governed by the provisions of

the bye-laws of the Company relating to directors proceedings (and such provisions shall be deemed to form part of these Terms).

10. The Committee is authorized by the Board to invite advisors to the meeting, including but not limited to external advisors or consultants to advise its members.

#### **Authority**

11. The Committee is authorized to investigate any activity and seek any information it requires within these Terms and all employees are directed to cooperate with any request made by the Committee. The Committee is authorized by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary.

12. The Committee shall report to the board any suspected frauds and irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

13. 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 in the annual report a statement from the Committee explaining its recommendation and also the reasons why the Board has taken a different view.

14. The Committee is to be provided with sufficient resources to discharge its duties.

#### **Responsibility**

15. The Committee is to serve as a focal point for communication between other directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.

16. The Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Company and its subsidiaries (the "**Group**"), and as to the adequacy of the external audits.

#### **Duties**

17. The Committee shall:

(a) be 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 resignation or dismissal of that auditor;

(b) review with the group's management and external auditor, the adequacy of the group's policies and procedures regarding internal controls (including financial, operational and compliance controls), risk management system and any statement by the directors to be included in the annual accounts prior to endorsement by the board;

(c) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The

Committee should understand the factors considered by the external auditors in determining their audit scope, and should discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commencement. The external auditors' fees is to be negotiated by management, and presented to the Committee for review and approval annually;

(d) review the annual and interim financial reports prior to approval by the board, with particular focus on:

- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments resulting from the audit;
- (iv) the going concern assumptions and any qualifications;
- (v) compliance with accounting and auditing standards; and
- (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

(e) with regard to (d) 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 external 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 Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor;

(f) review the financial controls, internal control and risk management systems;

(g) discuss the internal control system with the management to ensure that management has performed its duty to have an effective internal control system, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(h) consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

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

(j) 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;

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

(l) review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair

and independent investigation of such matters and for appropriate follow-up action;

(m) to act as the key representative body for overseeing the Company's relation with the external auditor, and to evaluate the cooperation received by the external auditors, including their access to all requested records, data and information; obtain the comments of management regarding the responsiveness of the external auditors to the Group's needs; inquire of the external auditors as to whether there have been any disagreements with management which if not satisfactorily resolved would result in the issue of a qualified report on the group's financial statements;

(n) obtain from the external auditors annually information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including provision of non-audit services and requirements regarding rotation of audit partners and staff;

(o) discuss with the external auditors any recommendations arising from the audit (if necessary in the absence of management);

(p) meet with the auditor, at least once a year, in the absence of management to discuss matters relating to its audit fees, any issue arising from the audit and any other matters the auditor may wish to raise;

(q) the engagement of the external auditors to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditors due to their unique expertise in a particular area, the prior approval of the Committee is required;

(r) review and consider the findings of internal investigations and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations;

(s) agree with the Board the Company's policy relating to the hiring of employees or former employees of the external auditors and monitor the applications of such policy. The Committee shall consider whether as a result of such hiring there has been any impairment of the auditor's judgment or independence in respect of an audit;

(t) report to the Board on the above matters; and

(u) consider other topics, as defined by the Board;

### **Report procedures**

18. The Committee shall report to the Board on a regular basis. At the next meeting of the Board following a meeting of the Committee, the chairman of the Committee shall report the findings and recommendations of the Committee to the Board. At least annually, the Committee should present a report to the Board which addresses the work and findings of the Committee during the year.

### **Terms of Reference**

19. These Terms shall be reviewed on annual basis and as required.

20. These Terms will be posted on the websites of the Stock Exchange and the

Company.

**Note:**

*If there is any inconsistency between the English and Chinese versions of this document, the English version shall prevail.*