

SMARTAC GROUP CHINA HOLDINGS LIMITED (“Company”)

Terms of Reference for Audit Committee

Constitution

1. The Board has established a Committee known as the Audit Committee (“Committee”).

Membership

2. The members shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom should be independent non-executive directors. At least one member shall have the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. Two members shall form a quorum.
3. A former partner of the Company’s existing auditing firm (“Firm”) is prohibited from acting as a member of the Committee for a period of 1 year commencing on 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 the later.
4. The Chair of the Committee shall be appointed by the Board and should be an independent non-executive director and in his absence, members present may elect any member to chair a Committee meeting.

Attendance at meetings

5. The Chief Financial Officer (or the Group Financial Controller), the Head of Internal Audit, and a representative of the external auditors shall normally attend meetings. However, at least once a year the Committee shall meet with the external auditors without other executive Board members present. The Company Secretary (or such other person appointed by the Chair of the Committee) shall be the secretary of the Committee and in his/her absence, such other person appointed by the Chair shall act as secretary of the relevant Committee meeting (“Secretary”).

Frequency and procedure of meetings

6. Meetings shall be held not less than 2 times a year and special meetings may be called at the discretion of the Chair of the Committee or at the request of the Board or Senior Management to review significant control or financial issues. The external auditors may request a meeting if they consider necessary. The members of the Committee may adopt from time to time the procedure governing the convening of the Committee meetings, the means and procedure for the passing of resolutions at meetings of the Committee.

Authority

7. The Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
8. The Committee is authorized 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. The Committee should be provided with sufficient resources to perform its duties.

Duties

9. The duties of the Committee shall be:

Relationship with external auditor

- (a) to consider and make recommendation to the Board on (i) the appointment, reappointment and removal of the external auditor; (ii) the audit fee and the terms of engagement of the external auditor; and (iii) any questions of resignation or dismissal of that auditor, taking into account the quality and rigour of the audit, the quality of the audit service provided, the auditing firm's quality control procedures, relationships between the external auditors and the Company, and the independence of the auditors;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards issued from time to time by the Hong Kong Institute of Certified Public Accountants, to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and to ensure co-ordination where more than one audit firm is involved;
- (c) to develop and implement policy on the engagement of an external auditor (which 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 having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) to supply non-audit services, to identify and report to the Board on any matters in respect of which it considers that action or improvement is needed;

Review of financial information

- (d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, interim report and quarterly financial highlights (or quarterly reports when required by the Listing Rules or when deemed appropriate by the Company), and to review quarterly (as the case may be) significant financial reporting judgments contained in them. In reviewing these financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption or any qualifications;
 - (v) compliance with accounting standards, and
 - (vi) compliance with the Listing Rules and legal requirements;
- (e) in conducting the review described in (d) above, members of the Committee:
 - (i) should liaise with the Board and Senior Management and meet with the auditors at least twice a year to discuss problems and reservations arising from final audit, and any matters the auditor may wish to discuss (in the absence of management where necessary); and
 - (ii) consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and 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(s) or auditors;

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

- (f) to review the Company's financial controls, internal control and risk management systems;
- (g) 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 programs and budget of the Company's accounting and financial functions;

- (h) to review the external auditor's management letter, any material queries raised by the auditor to the management about the accounting records, financial accounts or systems of control and the management's response;
- (i) to review the Company's statement on its internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (j) to review and monitor the effectiveness of the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (k) to consider major investigations 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;
- (l) to review the Company's financial and accounting policies and practices;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters set out in the CG Code (as amended from time to time); and
- (o) to consider other topics, as defined by the Board.

Other Procedures

10. The Chair, in consultation with the Secretary of the Committee, should be primarily responsible for drawing up and approving the agenda of each Committee meeting. The Chair, with the assistance of the Chief Financial Officer (or Group Financial Controller), shall ensure that all members shall have sufficient information in a timely manner to enable effective discussion at a Committee meeting and be briefed on the issues arising at each Committee meeting. The Secretary shall record minutes of all duly constituted meetings of the Committee. All minutes shall record in sufficient detail the matters considered, decisions reached or recommendations made and any concerns raised by any member, the external auditor and the Head of Internal Audit including dissenting views of any member. The Secretary shall circulate the draft and final versions of the minutes of meetings and reports of the Committee to all members for comments and records within a reasonable time after each meeting. The Chair shall report at the forthcoming Regular Board Meeting any key decisions made and issues discussed.

11. Unless otherwise defined, terms and expressions used herein shall have the same meanings as defined in the Corporate Governance Practice Manual of the Company.
12. The Terms of Reference has been prepared in English. If there is any inconsistency between the English and Chinese version, the English version shall prevail.