

EMPEROR CAPITAL GROUP LIMITED
英皇證券集團有限公司
(THE “COMPANY”)

AUDIT COMMITTEE - TERMS OF REFERENCE

The board of directors of the Company (“**Board**” or the “**Directors**”) has resolved to establish a committee of the Board known as the Audit Committee (“**Committee**”) on 1 March 2007.

1. MEMBERSHIP

- 1.1 Members of the Committee (“**Members**”) shall be appointed by the Board and shall be non-executive Directors only.
- 1.2 The Committee 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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”). The majority of the Members shall be independent non-executive Directors of the Company.
- 1.3 The Chairman/Chairperson of the Committee shall be appointed by the Board and he/she shall be an independent non-executive Director of the Company.
- 1.4 The Company Secretary or her nominee shall act as the Committee’s Secretary. The Committee may, from time to time, appoint any other person with the appropriate qualification and experience as secretary of the Committee.

2. MEETINGS

- 2.1 Meetings of the Committee shall be held not less than twice a year. Additional meetings shall be held as the work of the Committee demands.
- 2.2 A quorum of the meeting shall be two Members.
- 2.3 Proceedings of the Committee’s meetings shall be governed by the Company’s Bye-laws.
- 2.4 Full minutes of the Committee’s meetings shall be kept by the Secretary of the Committee, and such minutes shall be available for inspection at any reasonable time on reasonable notice by any Director of the Company.
- 2.5 Minutes of meetings of the Committee shall record in sufficient detail the matters considered by the Committee and decisions reached, including any concerns raised by Members or dissenting views expressed. Draft and final versions of minutes of the meetings should be sent to all Members for their comment and records respectively, within a reasonable time after the meetings being held.

3. DUTIES, POWER AND FUNCTION

- 3.1 The Committee shall be provided with sufficient resources to perform its duties and have unrestricted access to other members of the Board, senior management, financial and internal audit functions responsible staff and external auditor in execution of its duties and responsibilities. All relevant employees will be directed to co-operate with any request made by the Committee.
- 3.2 The Committee can seek independent professional advice in accordance with the procedures agreed by the Board from time to time and request the attendance of any external professional with relevant experience and expertise if it considers necessary.
- 3.3 The Committee shall act as the key representative body for overseeing the Company's relations with the external auditor.
- 3.4 The Committee is :-

Relationship with the Company'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 investigate its resignation or dismissal;
- (b) 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;
- (c) to ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity;
- (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 Company's financial information

- (e) to monitor integrity of the Company's financial statements and annual reports and accounts, half-year reports 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 the 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 clause (e) above :-
- (i) Members should liaise with the Board and senior management and the Committee shall meet, at least twice a year, with the Company's auditor; 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 auditor;

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

- (g) to review the Company's financial controls, risk management and internal control systems;
- (h) 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 adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (i) 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;
- (j) 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;
- (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 report to the Board on any matters set out above;
- (o) to consider other topics, as requested by the Board; and
- (p) to review arrangements by which employees of the Company can, 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 fair and independent investigation of these matters and appropriate follow-up action.

3.5 The Committee should report back to the Board at the next Board meeting following a Committee's meeting or by circulation of the minutes of such Committee's meeting unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

4. DISAGREEMENT WITH THE BOARD

4.1 In case the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company shall 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.

5. GENERAL

5.1 The terms of reference of the Committee shall be made available on the websites of The Stock Exchange of Hong Kong Limited and the Company.

5.2 In case of discrepancies or inconsistencies between the English and Chinese versions of this terms of reference, the English version shall prevail.

Note: "Senior management" refers to the same category of persons as referred to in the Company's annual report and is required to be disclosed under paragraph 12 of Appendix 16 to the Listing Rules.