

**PALIBURG HOLDINGS LIMITED**  
(incorporated in Bermuda with limited liability)

**AUDIT COMMITTEE**

**Terms of Reference**

**1. Constitution and Objective**

- 1.1 A committee of the board of directors (the “Board”) of Paliburg Holdings Limited (the “Company”) known as the “Audit Committee” is established by the Board.
- 1.2 The objective of the Audit Committee is to assist the Board in overseeing the following functions:
  - (i) to consider how the Board will apply the financial reporting and internal control principles; and
  - (ii) to maintain an appropriate relationship with the Company’s auditors.

**2. Composition**

- 2.1 The Audit Committee must comprise the Non-Executive Directors of the Company only. The Audit Committee must have not less than three members and a majority of the members of the Audit Committee must be Independent Non-Executive Directors of the Company.
- 2.2 At least one of the members of the Audit Committee is an Independent Non-Executive Director of the Company who has appropriate professional qualifications or accounting or related financial management expertise.
- 2.3 The Chairman of the Audit Committee shall be appointed by the Board and must be an Independent Non-Executive Director of the Company.

**3. Meetings**

- 3.1 Two members of the Audit Committee shall form the quorum of a meeting.
- 3.2 Representative(s) of the internal audit function of the Group (comprising the Company and its subsidiaries) and the external auditors shall normally attend meetings. Other Board members shall also have the right of attendance.
- 3.3 Meetings shall be held not less than twice a year.

- 3.4 The external auditor may request a meeting if they consider that one is necessary.
- 3.5 The Audit Committee shall meet with the external auditor at least once a year without executive Board members present.
- 3.6 The company secretary of the Company shall be the secretary of the Audit Committee.
- 3.7 The secretary of the Audit Committee shall circulate the minutes of meetings of the Audit Committee to all members of the Board, and the minutes shall be kept by the secretary of the Audit Committee.

#### **4. Authority**

- 4.1 The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires, in the performance of its duties, from any member of senior management or any employee of the Group, and all of the members of senior management and the employees of the Group are directed to co-operate with any request made by the Audit Committee.
- 4.2 The Audit 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 necessary for carrying out its duties.

#### **5. Duties**

The duties of the Audit Committee shall include:

- 5.1 *Oversight of financial reporting system and internal control procedures*
  - (a) to review the financial controls, internal control and risk management systems of the Group;
  - (b) to discuss with senior management the system of internal control and ensure that management has discharged its duty to have an effective internal control system, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;
  - (c) to consider any findings of major investigations on internal control matters as delegated by the Board or on its own initiative and management's response;

- (d) to ensure co-ordination between the Group's internal audit function and the external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor the effectiveness of the internal audit function;
- (e) to review the Group's financial and accounting policies and practices;
- (f) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (h) to report to the Board on the matters set out in the code provisions of C.3 of the Code on Corporate Governance Practices contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules");
- (i) 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, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (j) to consider other topics, as defined by the Board.

## 5.2 *Review of financial information*

- (a) to monitor integrity of the financial statements of the Group and the Company's annual report and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing the Company's annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports before submission to the Board, the Audit 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 other legal requirements in relation to financial reporting;

- (b) in regard to 5.2 (a) above:
  - (i) members of the Audit Committee must liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
  - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must 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 auditors;

### 5.3 *Relationship with the Company's auditors*

- (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 resignation or dismissal of that auditor;
- (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 Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include 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. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor.

## **6. Reporting Responsibilities**

- 6.1 The Audit Committee should report to the Board about its activities within its terms of reference and make appropriate recommendations on any matters that may have significant impact on the financial position or affairs of the business on a regular basis.

## **7. Publication of the Terms of Reference**

- 7.1 The terms of reference of the Audit Committee will be posted on the websites of the Company and The Stock Exchange of Hong Kong Limited. A copy of the terms of reference will be made available to any person without charge upon request.

29th March, 2012