



PAK TAK INTERNATIONAL LIMITED

(百 德 國 際 有 限 公 司)*

(incorporated in Bermuda with limited liability)

(Stock Code: 2668)

TERMS OF REFERENCE OF AUDIT COMMITTEE (THE “COMMITTEE”)

(Revised and adopted by the Board of Directors of
Pak Tak International Limited (the “Company”) on 29 March 2016)

Membership

1. The Committee shall consist of all the independent non-executive directors of the Company.
2. The Board shall nominate one of the members of the Committee as the chairman of the Committee.
3. The company secretary or his/her nominee shall act as the secretary of the Committee.

Frequency and proceedings of meetings

4. The Committee shall meet at least twice every year. Additional meetings shall be held as the work of the Committee demands.
5. The chairman of the Committee may convene additional meetings at his/her discretion.
6. The quorum of a meeting shall be two members of the Committee.
7. The Committee may, from time to time, invite advisors to the meeting, including but not limited to external advisors or consultants to advise its members.
8. The Committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members present and, in the case of an equality of votes, the chairman of a meeting shall have a second or casting vote.

* *for identification purpose only*

Authority

9. The Committee is authorized by the board of director of the Company (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.
10. 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.
11. Where the Board disagrees with the Committee’s view on the selection, appointment, resignation or dismissal of the external auditor, the Committee will arrange for the corporate governance report in the annual report of the Company to include an explanation of the Committee’s view and the reasons why the Board has taken a different view.
12. The Committee is authorized to require management to provided it with sufficient resources to discharge its duties.

Duties, powers and functions

13. The Committee shall:
 - (a) be responsible for making recommendation 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) discuss and review with the management, external auditor and internal auditor (if any) in relation to the adequacy of the Company and its Subsidiaries (the “Group”) policies and internal control system (including financial, operational and compliance controls), risk management system and any statement by the directors of the Company (“Directors”) to be included in the annual accounts prior to endorsement by the Board; the discussion should include the adequacy of resources, staff qualification and experience, training programs and budget of the Company’s accounting and financial reporting function;
 - (c) have familiarity with the financial reporting principles and practices applied by the Group in preparing its financial statements;

- (d) before audit commencement, review external auditor's independence, objectivity, effectiveness of the audit process and the scope of the external audit, including the engagement letter. The Committee should understand the factors considered by the external auditor in determining their audit scope. The external audit fees are to be negotiated by management, and presented to the Committee for review and approval annually;
- (e) review the annual, quarterly (if any) 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 assumption and any qualifications;
 - (v) compliance with accounting and auditing standards; and
 - (vi) compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and legal requirements in relation to financial reporting;
- (f) with regard to (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 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 staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (g) review the draft representation letter prior to approval by the Board;
- (h) discuss with the external auditor any recommendations arising from the audit (if necessary in the absence of management); and review the draft management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control including management's response to the points raised;
- (i) ensure that the Board will provide a timely response to issues raised in the external auditor's management letter;

- (j) review and monitor the scope, effectiveness and results of internal audit function, ensure co-ordination between the internal and external auditor and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;
- (k) the engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, the prior approval of the Committee is required;
- (l) discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective risk management and internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function;
- (m) apprise the Board of significant developments in the course of performing the above duties;
- (n) recommend to the Board any appropriate extensions to, or changes, in the duties of the Committee;
- (o) review the investigation findings on risk management and internal control matters and management's response into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations;
- (p) review arrangements employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management, internal control or other matters. The Committee is to ensure proper arrangements are in place for fair and independent investigation of these concerns and appropriate follow up action;
- (q) act as the key representative body for overseeing the relations with the external auditor;
- (r) report to the Board on above matters; and
- (s) consider other topics, as requested by the Board.

Reporting Procedures

14. 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.

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