



Pacific Textiles Holdings Limited

互太紡織控股有限公司

Audit Committee

審核委員會

Terms of reference revised on March 20, 2009

職權範圍修訂於 2009 年 3 月 20 日

Members:

Mr. SZE Kwok Wing, Nigel (*Chairman*)

Mr. NG Ching Wah

Mr. CHAN Yue Kwong, Michael

委員:

施國榮先生 (主席)

伍清華先生

陳裕光先生

DEFINITIONS

In these terms of reference, unless the context otherwise requires, the following terms have the meaning set out below:

“Board”	means the Board of Directors of the Company;
“Committee”	means the Audit Committee of the Board of the Company;
“Company”	means Pacific Textiles Holdings Limited (互太紡織控股有限公司);
“Directors”	means the directors of the Company, and “Director” means any one of them;
“Independent Non-executive Directors”	means Directors meeting the requirements of independence set out in the Listing Rules, and “Independent Non-executive Director” means any one of them;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Exchange;
“senior management”	means the category of persons considered as senior management under the Listing Rules; and
“Exchange”	means The Stock Exchange of Hong Kong Limited.

Purpose of the Committee

The purpose of the Committee of the Board of the Company is to provide assistance to the Board in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Company and its subsidiaries, including, without limitation, assisting the Board's oversight of (a) the integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements, (c) the Company's independent auditors' qualifications and independence, and (d) the performance of the Company's independent auditors and the Company's internal audit function.

Composition

- 1** The Committee shall comprise non-executive Directors only. The Committee shall comprise a minimum of three members and majority of whom shall be Independent Non-executive Directors. At least one of the Committee members (who is an Independent Non-executive Director) shall have appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
- 2** A former partner of the Company's existing auditing firm shall be prohibited from acting as a member of the Committee for a period of 1 year commencing on the date of his ceasing:
 - 2.1** to be a partner of the firm; or
 - 2.2** to have any financial interest in the firm,whichever is the later.
- 3** The chairman of the Committee shall be appointed by the Board and shall be an Independent Non-executive Director.
- 4** If any member of the Committee is unable to act for any reason, the chairman of the Committee may, with the agreement of the other members of the Committee, appoint any other Independent Non-executive Director to act as his alternate.
- 5** The secretary of the Committee shall be the Company's secretary or any person designated as such by the Committee from time to time.

Disclosure of interests

- 6** Each member of the Committee shall disclose to the Committee any personal financial interest in, and any potential conflict of interest arising from, any matter to be decided by the Committee. Any member with such interest(s) or potential conflict of interest shall abstain from voting on resolutions of the Committee relating to such interest(s) or potential conflict of interest and from participating in any discussion concerning such resolutions and (if so requested by the Board) shall resign from the Committee.

Proceedings

- 7** The quorum for meetings of the Committee shall be not less than any two of its members, present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other.
- 8** The chairman of the Committee may convene meetings at his discretion, but in any event meetings of the Committee are to be held not less than twice every year or at such frequency as required under the Listing Rules or other regulatory requirements applicable to the Company from time to time.
- 9** The Committee should meet separately on a periodic basis with (i) management, (ii) the general manager of the Company's internal auditing department or other person responsible for the internal audit function and (iii) the Company's external auditors, in each case to discuss any matters that the Committee or any of the above persons or firms believe warrant Committee attention. The Company's external auditor may also request a meeting of the Committee if it considers that is necessary.
- 10** The Chief Financial Officer and the Controller (if applicable) of the Company, and a representative of the external auditor of the Company shall normally attend meetings of the Committee. However, at least once a year the Committee shall meet with the external and internal auditors without executive Directors present.

Authorities and Duties

- 11** The Committee is authorised by the Board:
 - 11.1** to investigate any activity within these terms of reference and to seek any information it requires from any employee of the Company and its group and all such employees are directed to co-operate with any request made by the Committee;
 - 11.2** where necessary, to obtain legal or other independent professional advice at the cost of the Company; and
 - 11.3** to secure the attendance of any person with relevant experience and expertise at Committee meetings as it considers appropriate.
- 12** The duties of the Committee are:
 - 12.1** to be primarily 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 resignation or dismissal of that auditor;
 - 12.2** to be directly responsible for the oversight of the work of the external auditor, and the auditor shall report directly to the Committee;
 - 12.3** to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
 - 12.4** to discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

- 12.5** to develop and implement policy on the engagement of an external auditor to supply non-audit services. The Committee shall 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;
- 12.6** to review and discuss with the external auditors their annual audit plan, including the timing and scope of audit activities, and monitor such plan's progress and results during the year;
- 12.7** to resolve any and all disagreements between the Company's external auditors and management regarding financial reporting;
- 12.8** to review with management, the Company's external auditors, and, if appropriate, the general manager of the Company's internal audit department, financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Committee shall focus on:-
 - 12.8.1** all critical accounting policies and practices including any changes;
 - 12.8.2** major judgmental areas;
 - 12.8.3** significant adjustments resulting from audit;
 - 12.8.4** all alternative treatments of financial information that have been discussed by the external auditors and management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors;
 - 12.8.5** all other material written communications between the external auditors and management, such as any management letter and any schedule of unadjusted differences;
 - 12.8.6** the going concern assumptions and any qualifications;
 - 12.8.7** compliance with accounting standards; and
 - 12.8.8** compliance with the Listing Rules and other legal or regulatory requirements in relation to financial reporting.
- 12.9** In regard to 12.8 above:-
 - 12.9.1** members of the Committee shall liaise with the Board and the Company's senior management and the Committee shall meet, at least once a year, with the Company's external auditor; and
 - 12.9.2** the Committee shall consider any significant or unusual items that are or may need to be reflected in such reports and accounts and shall 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 auditors;
- 12.10** to review the Company's financial controls, internal control and risk management systems and other material financial matters;

- 12.11** to discuss with the management the system of internal control, to 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 Company's accounting and financial reporting function, and their training programmes and budget and to evaluate the management's performance generally;
- 12.12** to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- 12.13** to ensure coordination 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 the effectiveness of the internal audit function;
- 12.14** to review the Company and its group's financial and accounting policies and practices and to supervise the status of the Company's financial operations and core businesses;
- 12.15** 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;
- 12.16** to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 12.17** to review with the Chief Executive Officer, Chief Financial Officer and external auditors, periodically, the following:
 - 12.17.1** all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarise and report financial information; and
 - 12.17.2** any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting;
- 12.18** to consider all other matters as referred to the Committee by the Board.

Miscellaneous

- 13** The Committee shall secure independent expert advice to the extent the Committee determines it to be appropriate, including retaining, with or without Board approval, independent counsel, accountants, consultants or others, to assist the Committee in fulfilling its duties and responsibilities, the cost of such independent expert advisors to be borne by the Company.
- 14** The Committee shall make available these terms of reference, explaining its role and the authority delegated to it by the Board.
- 15** The Committee shall perform such additional activities, and consider such other matters, within the scope of its responsibilities, as the Committee or the Board deems necessary or appropriate.

- 16 The Committee shall provide such information to the Board as is necessary to assist the Board in reporting to the shareholders each year on audit issues in accordance with the Listing Rules or other regulatory requirements applicable to the Company.
- 17 The Committee shall make available at least one of its members to attend the Company's annual general meeting to answer shareholders' questions about audit issues.
- 18 Full minutes of meetings of the Committee shall be kept by the secretary to the meetings of the Committee and such minutes shall be open for inspection at any reasonable time on reasonable notice by any Director. The secretary to any meeting of the Committee shall circulate the minutes of the meeting of the Committee for which he or she has acted as secretary in both draft and final form to all members of the Committee within a reasonable time after such meeting is held.
- 19 The Committee shall report back to the Board on all of their decisions or recommendations.

Evaluation of the Committee

- 20 The Committee shall, on an annual basis, evaluate its performance. The evaluation shall address all matters that the Committee considers relevant to its performance, including a review and assessment of the adequacy of these terms of reference, and shall be conducted in such manner as the Committee deems appropriate.

Investigation and Studies; Outside Advisers

- 21 The Committee may conduct or authorise investigations into or studies of matters within the Committee's scope of responsibilities, and may retain, at the Company's expense, such independent counsel or other consultants or advisers as it deems necessary.

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Nothing contained in these terms of reference is intended to create, or should be construed as creating, any responsibility or liability of the members of the Committee, except to the extent otherwise provided under applicable laws and the Listing Rules.