



ALCO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Website: <http://www.alco.com.hk>

(Stock Code: 328)

Terms of Reference of the Audit Committee

1. Constitution

- 1.1 The Audit Committee was established pursuant to a resolution passed by the board of directors (the “**Board**”) of Alco Holdings Limited (the “**Company**”) in its meeting held on 25 July 2000.

2. Membership

- 2.1 The Audit Committee shall comprise a minimum of three members consisting of non-executive directors only and a majority of whom must be independent non-executive directors of the Company.
- 2.2 The Audit Committee must comprise at least one independent non-executive director who has 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 (the “**Listing Rules**”).
- 2.3 The chairman of the Audit Committee shall be appointed by the Board and must be an independent non-executive director.
- 2.4 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 two years from the date of the person ceasing:
 - (a) to be a partner of the firm; or
 - (b) to have any financial interest in the firm,

whichever is later.

3. Meetings

- 3.1 The Audit Committee shall meet at least twice a year or more frequently if the circumstances require.
- 3.2 The quorum of the Audit Committee meeting shall be two.

4. Company Secretary

- 4.1 The company secretary of the Company (the “**Company Secretary**”) shall be the secretary of the Audit Committee.

5. Authority

- 5.1 The Audit Committee is granted the authority to investigate any activity within its terms of reference and all employees are directed to cooperate as requested by members of the Audit Committee.
- 5.2 The Audit Committee is authorized by the Board to obtain outside independent legal or other professional advice at the expense of the Company as necessary to assist the Audit Committee.

6. Responsibilities and Duties

The Audit Committee shall perform the following duties:

- 6.1 to monitor the integrity of the Company’s financial statements and annual report and accounts, interim reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:
- any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 6.2 Regarding paragraph 6.1 above:
- members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company’s auditors; and
 - the Audit 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 auditors;

- 6.3 to review the Group's financial controls, internal control and risk management systems;
- 6.4 to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system;
- 6.5 to discuss the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- 6.6 to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 6.7 where an internal audit function exists, 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;
- 6.8 to review the financial and accounting policies and practices of the Company and its subsidiaries (collectively the "**Group**");
- 6.9 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;
- 6.10 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.11 to report to the Board any suspected frauds or irregularities, failures of internal control or suspected infringements of laws, rules and regulations which come to its attention;
- 6.12 to review arrangements employees of the Company 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;
- 6.13 to act as the key representative body for overseeing the Company's relationship with the external auditor;
- 6.14 to be primarily responsible for making recommendations to the Board on the appointment, re-appointment 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;
- 6.15 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;
- 6.16 to develop and implement policy on engaging an external auditor to supply non-audit services;
- 6.17 to consider the performance of the external auditor;
- 6.18 to consider other topics, as defined by the Board.

7. Reporting Procedures

- 7.1 Full minutes of Audit Committee meetings should be kept by the Company Secretary.
- 7.2 The Company Secretary shall circulate the draft and final versions of minutes of meetings of the Audit Committee to all members of the Audit Committee for their comment and records respectively, as soon as practicable after the conclusion of any meeting of the Audit Committee.