



Prosperity International Holdings (H.K.) Limited

昌興國際控股（香港）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 803)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

(As adopted by the Board on 7 March 2005, amended on 1 January 2009 and 30 March 2012)

Constitution

1. The board (the “**Board**”) of directors (the “**Directors**”) of Prosperity International Holdings (H.K.) Limited (the “**Company**”) resolved to establish a committee of the Board known as the Audit Committee (the “**Audit Committee**”).

Membership

2. The Audit Committee shall comprise non-executive Directors only appointed by the Board. The Audit Committee should comprise a minimum of three members, at least one of whom is an independent non-executive Director with such professional qualifications or accounting or related financial management expertise as required under the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The majority of committee members should be independent non-executive Directors. The constitution of the Audit Committee shall comply with the requirements of the Listing Rules from time to time.
3. A former partner of the Company's existing auditing firm shall not act as a member of the Audit Committee until one year after the commencement of the later of the date of his ceasing (a) to be a partner of such firm; or (b) to have any financial interest in such firm.
4. The appointment of the members of the Audit Committee may be revoked, and new member can be appointed in place by resolutions passed by the Board and by the Audit Committee.
5. No alternate Audit Committee member can be appointed.

Chairman

6. The Board shall appoint the chairman of the Audit Committee (the “**AC Chairman**”). The AC Chairman must be an independent non-executive Director. The AC Chairman has the responsibility of liaising with the Board.

7. In the absence of the AC Chairman during a meeting of the Audit Committee, the remaining members present at such meeting shall elect one of themselves to chair such meeting of the Audit Committee.

Secretary

8. The company secretary of the Company shall be the secretary of the Audit Committee (the “**Secretary**”) who should attend all meetings of the Audit Committee.
9. The quorum of Audit Committee meetings shall be two members. If only two members are in attendance, both members shall be independent non-executive Directors. If more than two members are in attendance, a majority of the members shall be independent non-executive Directors.
10. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and record such (if any) accordingly. Any member of the Audit Committee ascertained by the Secretary to have any conflict of interest shall not be counted towards the quorum and he/she must abstain from voting on any resolution of the Audit Committee in which he/she and/or his/her associates has/have a material interest. Questions arising at any meetings shall be decided by a simple majority of votes.

Attendance at meetings

11. The Audit Committee members may attend meetings of the Audit Committee either in person or through other electronic means of communication in which all persons participating in the meeting can hear each other.
12. The chairman of the Board (the “**Chairman**”) and the chief financial officer of the Company (the “**Chief Financial Officer**”) shall normally attend meetings, with a representative of the external auditors invited at least once a year who will have an opportunity to speak to the Audit Committee without the Chairman and the Chief Financial Officer in attendance if so required by the Audit Committee members.

Frequency of meetings

13. Meetings shall be held not less than two times a year. Additional meetings should be held as and when the Audit Committee considers necessary.
14. The AC Chairman may convene additional meetings at his discretion.
15. Subject to paragraph 16 below, the Chairman, the Chief Financial Officers and the Deputy Financial Officer (or any officer(s) assuming the relevant functions but having a different designation) may be invited by the AC Chairman to attend meetings of the Audit Committee as and when appropriate. A representative of the external auditors shall be invited to attend the meetings of the Audit Committee where appropriate. Other staff who have specific responsibility for an area under review may also be invited by the Audit Committee to attend.
16. The Audit Committee shall, at least annually, hold separate private meeting(s) with the internal auditors and/or the external auditors with no executive Directors or senior management present and at such other times as they think fit and appropriate. The

external auditors may make a request to the AC Chairman to convene a meeting of the Audit Committee and the AC Chairman shall have the discretion whether or not to convene such a meeting and decide on the date, time and venue of such meeting.

17. Proceedings of meetings of the Audit Committee shall be governed by the provisions of the Bye-laws of the Company.

Notice of meetings

18. Meetings of the Audit Committee shall be summoned and convened by the Secretary at the request of any of its members or at the request of the external or internal auditors.
19. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, shall be sent to each member of the Audit Committee, and to any other person required to attend:
 - (a) in relation to all regular meetings of the Audit Committee, at least 14 days before the date of the meeting; and
 - (b) in relation to all other meetings of the Audit Committee, within a reasonable time prior to the date of the meeting.
20. An agenda of items to be discussed, together with supporting papers shall be sent to Audit Committee members and to other attendees as appropriate within a reasonable time prior to the date of the meeting.
21. Any member of the Audit Committee shall be entitled, by notice to the Secretary, to include other matters relevant to the functions of the Audit Committee in the agenda of an Audit Committee meeting.

Minutes of meetings

22. The Secretary (or his/her delegate) in attendance at the meetings of the Audit Committee shall prepare minutes in sufficient detail in respect of the proceedings and resolutions of all such meetings, including the names of those present and in attendance. The minutes should also include any concerns raised by any member of the Audit Committee and/or dissenting views expressed.
23. Draft and final versions of the minutes of Audit Committee meetings shall be sent to all Audit Committee members for their comment and records respectively, in both cases within a reasonable time after the meeting. Once they are agreed upon, the Secretary shall circulate the minutes and reports of the Audit Committee to all members of the Board.
24. Minutes of the Audit Committee meetings shall be kept by the Secretary and shall be available for inspection by any member of the Audit Committee and/or any Director at any reasonable time on reasonable notice. Copies of the minutes of meetings of the Audit Committee shall be provided to the Board at its meetings.

Resolutions

25. A resolution in writing signed by all the members of the Audit Committee shall be as valid and effectual as it had been passed at a meeting of the Audit Committee and may consist of several documents in same form each signed by one or more of the Members. Such resolution may be signed and circulated by fax. This provision is without prejudice to any requirement under the Listing Rules for a Board or Audit Committee's meeting to be held.

Annual general meetings

26. The AC Chairman shall endeavour to attend the annual general meetings of the Company and be prepared to respond to any questions of the shareholders of the Company (the "**Shareholders**") relating to the Audit Committee's activities.
27. If the AC Chairman is unable to attend an annual general meeting of the Company, he shall arrange for another member of the Audit Committee, or failing this, his duly appointed delegate, to attend in his place. Such person shall be prepared to respond to any such questions.

Reporting responsibilities

28. After each meeting, the AC Chairman shall report formally to the Board on all matters within its duties and responsibilities.
29. The Audit Committee shall make whatever recommendations it deems appropriate to the Board on any area within its remit where action or improvement is needed.
30. Where the Board disagrees with the Audit Committee's views on the selection, appointment and resignation or dismissal of the external auditor, the Audit Committee shall prepare a statement, for inclusion in the Company's Corporate Governance Report, explaining its recommendations. The Board shall include in the same report the reason(s) why the Board takes a different view.
31. The Audit Committee shall, with the assistance of the Secretary, compile a report to the Shareholders on its role and activities which will be included in the Company's Corporate Governance Report.
32. The Audit Committee shall report to the Board on a regular basis. At the next meeting of the Board following a meeting/written resolution of the Audit Committee, copies of the minutes/resolution setting out the findings, recommendations and decisions of the Audit Committee shall be submitted to the Board.

Line of communication

33. The AC Chairman shall give instructions (through the Chairman or the Chief Financial Officer) to conduct reviews on areas of possible concern to be performed by the internal audit services department of the external auditors or, if established, the Company's internal auditor.

Authority

34. The Audit Committee is authorised by the Board:
 - (a) to investigate any activity within its terms of reference;
 - (b) to seek any information it requires from any employee of the Company or executive Directors and all such persons are directed to co-operate with any request made by the Audit Committee; and
 - (c) subject to the Company's procedure for seeking external advice, to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
35. The Deputy Financial Officer shall report to the Audit Committee in such form as is specified by the Audit Committee.
36. The Audit Committee shall 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 and are of sufficient importance to warrant the attention of the Board;

General Responsibilities

37. The Audit Committee is to serve as a focal point for communication between other Directors, the external auditors and the internal auditors as regards their duties relating to financial and other reporting, internal controls, external and internal audits and such other matters as the Board determines from time to time.
38. The Audit Committee is to assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls and risk management system of the Company and its subsidiaries (the “**Group**”), and as to the adequacy of the external and internal audits.
39. The Audit Committee shall fulfill other responsibilities as required by the Listing Rules from time to time.

Duties

40. The duties of the Audit Committee shall be:

Relationship with the Company's external auditors

- (a) 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;
- (b) to consider the plan for each year's audit submitted by the external auditors and discuss the same at a meeting if necessary;

- (c) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences and to ensure coordination where more than one audit firm is involved. In this connection, the Audit Committee shall:-
- (i) consider all relationships between the Company and the external auditors (including non-audit services);
 - (ii) obtain from the external auditors annually information about policies and process for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff;
 - (iii) conduct annual review of all non-audit services performed by external auditors and the related fee levels, and to ensure that such services do not impair the independence or objectivity of the external auditors; and
 - (iv) review the policies on hiring of any staff or partners of the external auditors and consider whether as a result of such subsequent hiring, there has been any impairment of the external auditor's judgement or independent in respect of the audit.
- (d) to develop and implement policy on engaging an external auditor to supply non-audit services, and to report to the Board. . For this purpose, external auditors 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 knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of financial information of the Company

- (e) to monitor the integrity of the Company's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained therein, and in reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:
- (i) any changes in accounting policies and practices;
 - (ii) major judgemental 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;

- (f) in regard to paragraph 40(e) above, the Audit Committee members should liaise with the Board and senior management of the Company and the Audit Committee must meet, at least twice a year, with the external auditors, and the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and it should give due consideration to any matters that have been raised by the Company's qualified accountant, external auditor or internal control officer;

Oversight of the Company's financial reporting system and internal control procedures

- (g) to review the Company's financial controls, internal control and risk management systems;
- (h) to discuss the internal control system with the management to ensure that management has performed its duty to have an effective internal control system. Such discussion shall include the adequacy of resources, staff qualifications, training programmes and budget of the Company's accounting and financial reporting function;
- (i) to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (j) 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;
- (k) to review the financial and accounting policies and practices of the Group;
- (l) to discuss any problems and reservations arising from the interim and final auditors, and any matters the external auditors may wish to discuss (in the absence of management where necessary) and to assist in the resolution of any disagreements or difference between the external auditors and management;
- (m) to review the external auditor's management letter, any material queries raised by the external auditor to management about the accounting records, financial accounts or systems of control and management's response;
- (n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (o) to report to the Board on the matters set out in these Terms of Reference and matters required to be performed by the Audit Committee under Appendix 14 of the Listing Rules and revisions thereto implemented from time to time;
- (p) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

- (q) to act as the key representative body for overseeing the Company's relationship with the external auditor; and
 - (r) to consider other topics, as defined by the Board;
41. The independent non-executive Directors shall review, at least on an annual basis, the compliance with non-competition undertaking by the controlling shareholders of the Company, and any options, pre-emptive rights or first rights of refusals provided by the controlling shareholders of the Company on their existing or future competing business. The Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the non-competition undertaking by the controlling shareholders of the Company in its annual report.

Availability of Terms of Reference

42. The Audit Committee shall make available these terms of reference, explaining its role and the authority delegated to it by the Board by including them on the Stock Exchange's website and the Company's website.

Others

43. The Audit Committee shall have access to sufficient resources in order to discharge its duties. In the event that the Audit Committee determines that it has insufficient resources, it may make a request for additional resources to the Board through the Secretary.
44. All members of the Audit Committee shall have access to the advice and services of the Secretary with a view to ensuring that procedures of the Audit Committee and all applicable rules and regulations are followed.
45. Any member of the Audit Committee may require access to outside legal or other independent professional advice in connection with his/her duties at the Company's expense. All such requests shall be processed in accordance with the Company's procedures for seeking independent professional advice by Directors.
46. Every member of the Audit Committee shall give sufficient time and attention to his/her duties as a member of the Audit Committee. He/she shall give the Company the benefit of his skills and expertise through regular attendance and active participation.
47. Each member of the Audit Committee who is an independent non-executive Director shall provide an annual confirmation of his independence to the Company in accordance with the requirements of the Listing Rules.