

EASYKNIT ENTERPRISES HOLDINGS LIMITED
(the “Company”)

Audit Committee – Terms of Reference
(*adopted on 5 May 2005*)

1. CONSTITUTION

- 1.1 The Audit Committee (the “Committee”) is appointed by the board of directors of the Company (the “Board”).
- 1.2 Subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the bye-laws of the Company, the Committee shall be regulated by these terms of reference (the “Terms of Reference”).

2. MEMBERSHIP & SECRETARY

- 2.1 The Committee shall be appointed by the Board from amongst the non-executive directors of the Company only and shall consist of not less than three members (the “Members”), at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. The majority of the Members must be independent non-executive directors.
- 2.2 The Chairman of the Committee shall be appointed by the Board and must be an independent non-executive director.
- 2.3 A former partner of the Company’s existing auditing firm should be prohibited from acting as a Member for a period of 1 year commencing on the date of his/her ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.
- 2.4 The Company Secretary or his/her nominee shall be the secretary of the Committee.

3. MEETINGS

- 3.1 The Committee shall meet at least twice a year. The external auditor may request a meeting if it considers that one is necessary. The Committee shall meet with the external auditor, at least annually, in the absence of the management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the external auditor may wish to raise.
- 3.2 Meetings and proceedings of the Committee shall be governed by the provisions contained in the Company’s bye-laws for regulating the meetings and proceedings of directors. Unless otherwise determined, two Members shall be a quorum.

- 3.3 The Committee may invite executive directors, senior management, head of accounts department, qualified accountant, representatives of the external auditors of the Company or other persons to attend the meeting of the Committee.
- 3.4 Full minutes of meetings shall be kept by the secretary of the Committee and shall be open for inspection by any director of the Company. Draft and final versions of minutes shall be sent to all Members for their comment and records respectively, in both cases within a reasonable time after the meeting.

4. AUTHORITY

- 4.1 The Committee is authorised by the Board to investigate any activity within the Terms of Reference. It is authorised to seek any information it requires from any employee or management of the Company and all such persons are directed to co-operate with any request made by the Committee.
- 4.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice at the Company's expense and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. Arrangement to seek the advice could be made through the Company Secretary.
- 4.3 Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditor, the Committee should arrange for the Corporate Governance Report to include a statement explaining its recommendation and also the reason(s) why the Board has taken a different view.
- 4.4 The Committee should be provided with sufficient resources to discharge its duties.

5. DUTIES

The Committee shall have the following duties:

Relationship with the Company's external auditors

- 5.1 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;

Note: The Listing Rules require an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the Company.

- 5.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- 5.3 to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

- 5.4 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;
- 5.5 to 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;

Review of financial information of the Company

- 5.6 to monitor integrity of 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 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;

- 5.7 In regard to 5.6 above:-

- (i) Members of the Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Committee must meet, at least once a year, with the Company's external auditor; and
- (ii) the 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 Company's qualified accountant, compliance officer or external auditor;

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

- 5.8 to review the Company's financial controls, internal control and risk management systems;
- 5.9 to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- 5.10 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;

- 5.11 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 the effectiveness of the internal audit function;
- 5.12 to review the group's financial and accounting policies and practices;
- 5.13 to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- 5.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 5.15 to report to the Board on the matters set out in the Terms of Reference;
- 5.16 to consider other topics, as defined by the Board; and
- 5.17 to recommend the Board any appropriate extensions or changes in the duties of the Committee.

6. REPORTING PROCEDURES

- 6.1 The Committee shall report back to the Board on its decisions or recommendations after each meeting, unless there are legal or regulatory restrictions on its ability to do so.

7. COMMUNICATION WITH SHAREHOLDERS

- 7.1 The Chairman of the Committee, or in his/her absence another Member of the Committee or failing this, a duly appointed delegate, shall attend the annual general meeting of the Company to answer questions in relation to the Committee.

8. AVAILABILITY OF TERMS OF REFERENCE

- 8.1 The Terms of Reference shall be posted on the Company's website.
- 8.2 A copy of the Terms of Reference will be made available to any person upon request without charge.

Note:

“Senior management” should refer to the same category of persons as referred to in the Company's annual report and is required to be disclosed under Appendix 16 to the Listing Rules.