



APPLIED DEVELOPMENT HOLDINGS LTD.

實力建業集團有限公司 *

(incorporated in Bermuda with limited liability)

(Stock code: 519)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Purpose

1. The purpose of the Audit Committee is to assist the Board of the Company in considering how the Board should apply financial reporting and internal control principles and to maintain an appropriate relationship with the Company's auditors.

Composition

1. The Audit Committee shall comprise a minimum of three members. The majority of the members shall be Independent Non-executive Directors with at least one Independent Non-executive Director having appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.
2. The Chairman of the Audit Committee shall be appointed by the Board and shall be an Independent Non-executive Director.
3. A former partner of the existing auditing firm of the Company is prohibited from acting as a member of the Audit Committee for a period of 1 year commencing on the later of (a) the date of his/her ceasing to be a partner of the firm; or (b) the date of his/her ceasing to have any financial interest in the firm.
4. The company secretary of the Company shall be the secretary of the Audit Committee. The Audit Committee may from time to time appoint any other person with appropriate qualifications and experience as the secretary of the Audit Committee.

Meetings

1. The financial controller of the Company and the company secretary of the Company will normally attend all the Meetings, unless requested otherwise by the Audit Committee.
2. At least twice a year, the Audit Committee will meet the Company's external auditors without any senior executives of the Company being present, except by invitation of the Audit Committee.

3. Only members of the Audit Committee are entitled to vote at the meetings of the Audit Committee.
4. The Committee shall meet at least twice each year. A member of the Audit Committee, a Director, the financial controller of the Company or the Company's external auditors may request that a meeting be held if they consider it necessary.
5. Notice of any meetings of the Audit Committee has to be given at least 7 days prior to any such meeting being held, unless the majority of the members of the Audit Committee waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a member of the Audit Committee shall be deemed waiver of the requisite length of notice by the member. Notice of any adjourned meeting is not required if the adjournment is for less than 7 days.
6. The quorum for meetings of the Audit Committee shall be any two members.
7. Resolutions of the Audit Committee shall be passed by a majority of votes or by way of unanimous written resolutions. Meetings can be held in person, by telephone or by video conference.
8. Minutes shall be kept by the secretary of the Audit Committee. Draft and final versions of minutes shall be circulated to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable period of time after the meeting.

Authority

1. The Audit Committee is established as a committee of the Board pursuant to bye-law 120(1) of the Bye-laws and the provisions in the Bye-laws regulating the meetings and proceedings of the Directors shall apply mutatis mutandis to meetings and proceedings of the Audit Committee.
2. The Audit Committee is authorised by the Board to investigate any activity within its functions and responsibilities outlined in these terms of reference. It is authorised to seek any information it may require from any employee, director, agent or advisor and all such persons will be directed to co-operate with any request made by the Committee.
3. The Audit Committee shall have unrestricted access to the executive Directors, other senior executives or employees and the external auditors of Company. The Audit Committee shall also have the right to consult the external auditors without reference to management or to consult the management without reference to the external auditors.
4. The members of the Audit Committee are authorised by the Board to seek independent professional advice in appropriate circumstances, at the Company's expense, to discharge his/her duties as a member. Arrangement to seek independent professional advice could be made through the company secretary of the Company.
5. The Audit Committee shall be provided with sufficient resources to discharge its duties.

Responsibilities and Duties

The duties of the Audit Committee shall be:-

1. to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor of the Company, and to approve the remuneration and terms of engagement of the external auditor of the Company, and any questions of resignation or dismissal of that auditor;

Note: Rule 13.51(4) of the Listing Rules requires 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.

2. 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 shall discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
3. to develop and implement policies regarding the engagement of an external auditor to supply non-audit services. For this purpose, an 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;
4. 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;
5. to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-yearly report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-yearly report and, if prepared for publication, quarterly reports before submission to the board, the Audit Committee shall focus particularly on:-
 - i. any changes in accounting policies and practices;
 - ii. major judgmental areas;
 - iii. significant adjustments resulting from the 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;

6. In regard to (5) above:

- i. members of the Audit Committee shall liaise with the Board, senior management and the person appointed as the Company's qualified accountant (if any) and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
 - ii. the Audit 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 qualified accountant (if any), compliance officer (if any) or auditors;
- 7. to review the Company's financial controls, internal control and risk management systems;
- 8. to discuss with management the system of internal control and 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;
- 9. 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;
- 10. 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 the appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- 11. to review the Group's financial and accounting policies and practices;
- 12. 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;
- 13. to ensure that the Board will provide a timely response to the issues raised by external auditors;
- 14. to report to the Board on the matters set out in the CG Code;
- 15. 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;
- 16. to act as the key representative body for overseeing the Company's relationship with the external auditor;
- 17. to consider such other matters as the Board may from time to time determine.

Confidentiality

1. All members of the Audit Committee shall treat and keep all information and documents received or accessible from the Company (including, but not limited to, the reports or minutes of the Audit Committee) in the strictest confidence and shall not directly or indirectly communicate or disclose or divulge (whether in writing or orally or in any other manner) any such information or document to any third party without prior written approval from the Board, save as disclosure is required under the laws and regulations of Hong Kong or is necessary to perform or discharge the member's duties.

** for identification purpose only*