

ADDCHANCE HOLDINGS LIMITED
(the “Company” which together with its subsidiaries, the “Group”)

**Terms of reference (the “Regulations”) relating to
the audit committee (“Audit Committee”)
of the board of directors (“Board”) of the Company**

A. Constitution

The Audit Committee is established pursuant to a resolution passed by the Board at a meeting held on 29 August 2005.

B. Audit Committee

1. Membership

1.1 Members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members, a majority of whom shall be independent non-executive directors. The initial members of the Audit Committee are Mr. CHAN Tsz Fu, Jacky, Mr NG Man Kin, and Professor CAI Xiu Ling.

1.2 The chairman of the Audit Committee shall be appointed by the Board.

Mr. CHAN Tsz Fu, Jacky shall be the first chairman.

1.3 The company secretary of the Company or his/her delegate shall be the secretary of the Audit Committee.

1.4 The appointment of the members and the secretary of the Audit Committee may be revoked, or additional members may be appointed to the Audit Committee by separate resolutions passed by the Board and the Audit Committee.

2. Proceedings of the Audit Committee

2.1 Notice

2.1.1 Unless otherwise agreed by all the Audit Committee members, a meeting of the committee shall be called by at least seven days' notice.

2.1.2 A member of the Audit Committee may, and on the request of a member of the Audit Committee, the secretary to the Audit Committee shall, at any time summon a meeting of the Audit Committee. Notice shall be given to each member of the Audit Committee orally in person or in writing or by telephone or by facsimile or electronic transmission at the telephone number or facsimile number or address or e-mail address from time to

time notified to the secretary by such member of the Audit Committee or by such other means as the members may from time to time determine. Any notice given orally shall be confirmed in writing.

- 2.1.3 Notice of meeting shall state the time and place of the meeting and shall be accompanied by an agenda together with other documents which may be required to be considered by the members of the Audit Committee for the purposes of the meeting.

2.2 Quorum

The quorum of the Audit Committee meeting shall be two members of the Audit Committee.

2.3 Attendance of meetings by non-members

The Finance Director, the Head of Internal Audit (or any officer(s) assuming the relevant functions but having a different designation) and a representative of the external auditors shall normally attend meetings of the Audit Committee. The executive directors shall also have the right of attendance. However, at least once a year the Audit Committee shall meet with the external auditors in the absence of the executive directors.

2.4 Frequency of meetings

Meetings shall be held at least once every three months to consider the budget, revised budget and quarterly report prepared by the Board. The external auditors may request the Chairman of the Audit Committee to convene a meeting, if they consider that one is necessary.

3. Written resolutions

Written resolutions may be passed by all members of the Audit Committee in writing.

4. Alternate members

A member of the Audit Committee may not appoint any alternate.

5. Authority

The Audit Committee may exercise the following powers:

- (a) to seek any information it requires from any employee of the Group and any professional advisers (including auditors), to require any of them to prepare and submit reports and to attend meetings of the Audit Committee and to supply information and answer questions raised by the Audit Committee;
- (b) to monitor whether the Group's management has, in the performance of its

duties, infringed any policies set by the Board or any applicable law, regulation and code (including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and other rules and regulations from time to time laid down by the Board or a committee thereof);

- (c) to investigate all suspected fraudulent acts involving the Group and request management to make investigation and submit reports;
- (d) to review the Group’s internal control procedures and system;
- (e) to review the performance of the Group’s employees in the accounting and internal audit department;
- (f) to make recommendations to the Board for the improvement of the Group’s internal control procedures and system;
- (g) to request the Board to convene a shareholders’ meeting for the purposes of revoking the appointment of any director and to dismiss any employee if there is evidence showing that the relevant director and/or employee has failed to discharge his/her duties properly;
- (h) to request the Board to take all necessary actions, including convening a special general meeting, to replace and dismiss the auditors of the Group; and
- (i) to obtain outside legal or other independent professional advice and to secure the attendance of independent third parties with relevant experience and expertise, if it considers this necessary.

6. Duties

The duties of the Audit Committee shall be:

- (a) to consider the appointment of the external auditors, the audit fee, and any questions of resignation or dismissal of the external auditors;
- (b) to discuss with the external auditors before the commencement of each audit, the nature and scope of the audit and to ensure co-ordination where more than one audit firm is involved;
- (c) to review the half-year and annual financial statements before submission to the Board, focusing 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 assumption;

- (v) compliance with accounting standards;
 - (vi) compliance with stock exchange and legal requirements;
 - (vii) the fairness and reasonableness of any connected transaction and the impact of such transaction on the profitability of the Group;
 - (viii) whether all relevant items have been adequately disclosed in the Group's financial statements and whether the disclosure give a true and fair view of the Group's financial conditions; and
 - (ix) the cashflow position of the Group;
- (d) to discuss problems and reservations arising from the interim limited review and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
 - (e) to review the external auditors' management letter and management's response;
 - (f) to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
 - (g) (where an internal audit function exists) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
 - (h) to conduct exit interviews with any director, manager, financial controller or internal credit control manager upon his resignation in order to ascertain the reasons for his departure;
 - (i) to make recommendations regarding the remuneration, bonuses and welfare benefits of the executive directors and the senior management;
 - (j) to prepare work reports for presentation to the Board and to prepare summary of work reports for inclusion in the Group's interim and annual reports;
 - (k) to consider the Board's recommendation of the appointment of any person to be an Audit Committee member, a company secretary, auditors and accounting staff either to fill a casual vacancy or as an additional Audit Committee member, company secretary, auditors and accounting staff or the Board's recommendation for the dismissal of any of them;
 - (l) to consider major findings of internal investigations and management's response; and
 - (m) to consider other matters, as defined or assigned by the Board from time to time.

7. Veto rights of the Audit Committee

The Audit Committee has the following veto rights. The Group cannot implement any of the following matters which have been vetoed by the Audit Committee:

- (a) to approve any connected transaction within the meaning of the Listing Rules which requires an independent shareholders' vote (unless the approval of such connected transaction is made conditional on the obtaining of the approval of the independent non-executive directors and the independent shareholders); and
- (b) to employ or dismiss the Group's financial controller or the internal audit manager.

8. Reporting procedures

The secretary to the Audit Committee shall circulate the minutes of meetings and all written resolutions of the Audit Committee to all members of the Board.

9. Continuing application of the articles of association of the Company

The articles of association of the Company regulating the meetings and proceedings of the Directors so far as the same are applicable and not inconsistent with the provisions of these Regulations shall apply to regulate the meetings and proceedings of the Audit Committee.

10. Powers of the Board

The Board may, subject to compliance with the articles of association of the Company and the Listing Rules (including the Code of Best Practice), amend, supplement and revoke these Regulations and/or any resolution passed by the Audit Committee provided that no amendments to or revocation of these Regulations and/or any resolution passed by the Audit Committee shall invalidate any prior act and resolution of the Audit Committee which would have been valid if these Regulations or resolution had not been amended or revoked.