



PACIFIC PLYWOOD HOLDINGS LIMITED

太平洋實業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 767)

TERMS OF REFERENCE OF AUDIT COMMITTEE

CONSTITUTION

1. The board of directors (the “**Board**”) of Pacific Plywood Holdings Limited (the “**Company**”), together with its subsidiaries (the “**Group**”), has established a committee known as the audit committee (the “**Audit Committee**”).

MEMBERSHIP

2. 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 (3) members, a majority of whom should be independent non-executive directors. At least one member shall have the appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).
3. Member shall immediately (and automatically) cease to be a member of the Audit Committee if he or she shall cease to hold the office of director for any cause.
4. Unless otherwise determined, quorum for a meeting of the Audit Committee shall be two (2) members.

CHAIRMAN

5. The chairman of the Audit Committee shall be appointed by the Board and should be an independent non-executive director.
6. If the chairman is not in attendance at any meeting of the Audit Committee, the members in attendance may appoint a chairman for that meeting.

ATTENDANCE AT MEETINGS

7. The chief financial officer and a representative of the external auditors shall normally attend meetings.
8. The company secretary shall act as the secretary at any meeting of the Audit Committee and, if the company secretary is absent, the chairman of the Audit Committee shall appoint a person, who need not be a member of the Audit Committee, to act as the secretary of the meeting.

* *For identification purpose only*

FREQUENCY OF MEETINGS

9. Meetings shall be held not less than twice a year. The external auditors may request a meeting if they consider that one is necessary.

NOTICE

10. Notice of the time and place of each meeting of the Audit Committee must be given to each member not less than three (3) business days before the time when the meeting is to be held.

VOTING

11. At all meetings of the Audit Committee, any question shall be decided by a simple majority of votes cast by members of the Audit Committee attending the meeting and voting on the question.

RESOLUTION IN WRITING

12. Except as required by laws, a resolution signed by all of the members of the Audit Committee is as valid as if it had been passed at a meeting of the Audit Committee.

FORM OF MEETING

13. Any member of the Audit Committee may participate in a meeting of the Audit Committee by means of such telephonic, electronic or other communication facilities that permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously.

AUTHORITY

14. The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.
15. The Audit Committee is authorized by the Board 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.

DUTIES

16. The duties of the Audit Committee shall be:

Relationship with the Company's auditors

- (a) to be primarily responsible for making recommendation 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 resignation or dismissal of that auditor;

- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;
- (c) 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. The Audit Committee should 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; and
- (d) to act as the key representative body for overseeing the Company's relations with the external auditor.

Review of financial information of the Company

- (e) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, interim report and, if preparation 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, interim report and if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should 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 assumption and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (f) in regards to (e) above:
 - (i) members of the Audit Committee must liaise with the Board, the Company's senior management and the person appointed as the Company's qualified accountant and the Audit Committee must meet, at least twice a year, with the Company's external auditors; and
 - (ii) the Audit 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 staff responsible for the accounting and financial reporting function, compliance officer or external auditors;

Oversight of the Group's financial reporting system, risk management and internal control systems

- (g) to review the Group's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Group's risk management and internal control systems;
- (h) to discuss the risk management and internal control systems with the management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;
- (i) to consider major investigation findings on risk management and 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 Group, and to review and monitor its effectiveness;
- (k) to review the Group's financial and accounting policies and practices;
- (l) 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;
- (m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (n) to report to the Board on the matters set out in this terms of reference;
- (o) to review the Company's arrangements for its employees can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and
- (p) to consider other topics, as defined by the Board.

Corporate Governance Functions

- (q) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (r) to review and monitor the training and continuous professional development of the directors and senior management;
- (s) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (t) to develop, review and monitor the code of conduct and compliance manual applicable to employees and the directors; and

- (u) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

REPORTING PROCEDURES

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