



City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

CITY e-SOLUTIONS LIMITED (the “Company”)

AUDIT COMMITTEE (the “Committee”)

TERMS OF REFERENCE

A. *Membership*

1. The Committee shall consist solely of non-executive directors and a minimum of three Directors appointed by the board of Directors of the Company (the “Board”) from time to time in accordance with these terms of reference as approved by the Board (including any amendments thereto as may be approved by the Board from time to time).
2. A majority of the Directors on the Committee shall also be independent, at least one of whom shall have appropriate professional qualifications or accounting or related financial management expertise.
3. No executive Directors shall be appointed to the Committee.
4. The chairman of the Committee shall be appointed by the Board from the members of the Committee and shall be an independent non-executive director.

B. *Attendance at meetings*

1. The Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and a representative of the external auditors shall normally attend the meetings of the Committee. At the invitation of the Committee, the Chairman of the Board, Managing Director, any other Director of the Board or any Senior Management of the Company may be invited to attend all or part of any meetings.
2. The Committee shall meet at least twice a year with the external auditors. However, at least once a year the Committee shall meet with the external auditors without the presence of the executive Directors and Management.
3. The Committee has the right to invite the Management and other professional consultants to attend its meetings.
4. The Company Secretary shall normally be appointed the secretary of the Committee. However, the Committee retains the right to appoint another person to be the Assistant Secretary of the Committee.

C. *Frequency of meetings*

Meetings shall be held not less than 4 times a year. Additional meetings shall be held as and when required in order for the Committee to carry out its functions. The external auditors may at any time request a meeting with the Committee if they consider that one is necessary.

D. Authority

1. The Committee is authorised by the Board to investigate any activity within its terms of reference.
2. The Committee is authorised to seek any information it requires from any employee and all employees (including Senior Management) are directed to assist and co-operate fully with any request made by the Committee.
3. The Committee is authorised to engage professional advisors to provide external legal or other independent professional advice, if it considers the same to be necessary and shall be provided with sufficient resources for the Committee to perform its duties.

E. Duties

The duties of the Committee shall be:

- (a) to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditor, to approve the audit fee and the terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services;
- (d) to monitor the integrity of the half-year, quarterly or other periodic and annual financial statements and review them before submission to the Board for approval for publication, focusing particularly on :-
 - i. any changes in accounting policies and practices;
 - ii. major judgemental 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 of The Stock Exchange of Hong Kong Limited and other legal requirements in relation to financial reporting.

The Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and should give due consideration to any matters that have been raised by the Chief Financial Officer, Management and staff responsible for the accounting and financial reporting function, compliance officer or auditors.

- (e) to review the Group's financial controls, internal control and risk management systems;
- (f) to review the Group's financial and accounting policies and practices;
- (g) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors, Chief Financial Officer or compliance officer may wish to discuss (in the absence of management where necessary);

- (h) to identify to the Board any areas of conflict of interest between (i) the Company and any of its subsidiaries; and (ii) any other person including any such affiliate or any associate of the Company;
- (i) to ensure that the Directors of the Company can properly discharge their responsibility to approve the financial statements of the Group and that the financial statements present fairly the position of the Group in accordance with generally accepted accounting principles;
- (j) to ensure Management's decisions and representations relating to accounting and reporting matters are properly reviewed;
- (k) to review the external auditors' management letter, any material queries raised by the auditor to Management about accounting records, financial accounts or systems of control and Management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (m) to discuss the internal control system with Management to ensure that Management has performed its duty to have an effective internal control system (which discussion should include a discussion on the adequacy of resources, staff qualification and experience, training programmes and budget for accounting and financial reporting function) and to review the Group's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (n) 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 Group, and to review and monitor its effectiveness;
- (o) to direct and supervise investigations into matters which raise questions about the accuracy of the Group's financial statements or the adequacy of its internal accounting control;
- (p) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and Management's response to these findings;
- (q) to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (r) to act as the key representative body for overseeing the Company's relations with the external auditor;
- (s) to report to the Board on all matters set out in the Committee's Terms of Reference;
- (t) to consider other topics, as defined by the Board;
- (u) to do any such things to enable the Committee to perform its duties and functions conferred on it by the Board; and

- (v) to conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation or the listing requirements of The Stock Exchange of Hong Kong Limited.

F. *Proceedings of the Audit Committee*

The proceedings of the Audit Committee shall be governed by the following rules:-

- at all meetings of the Committee, any question shall be decided by a majority of votes cast by members of the Committee on the question;
- a majority in number of the members of the Committee shall constitute a quorum for the transaction of business;
- notice of the time and place of each meeting of the Committee must be given to each member not less than two business days before the time when the meeting is to be held, unless in the case of a meeting urgently convened with the approval of the members of the Committee on shorter notice;
- except as otherwise required by law, a resolution signed by all the members of the Committee is as valid as if it had been passed at a meeting of the Committee duly convened and held;
- any member of the Committee may participate in a meeting of the 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;
- if the secretary of the Committee is absent, the chairman of the Committee meeting shall appoint a person who need not be a director to act as secretary of the meeting;
- if the chairman of the Committee is not in attendance at any meeting of the Committee, the members in attendance may appoint a chairman for that meeting; and
- the secretary of the Committee shall maintain and arrange for the keeping of records of the minutes of all meetings of the Committee, which shall include records of key deliberations and decisions taken, and all resolutions passed by the Committee. The minutes of all meetings of the Committee shall be circulated to all members of the Committee within a reasonable time after each meeting and, once the minutes have been confirmed, to the members of the Board for information.

Revised and adopted on 27 February 2012