

HONG KONG TECHNOLOGY VENTURE COMPANY LIMITED

香港科技探索有限公司

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 1137)

(the “Company”)

**CHARTER
OF
AUDIT COMMITTEE
(the “Committee”)**

Purpose

The purpose of the Committee is to oversee (a) the accounting and financial reporting processes and (b) the audit of financial statements of the Company.

Composition of the Committee

Size: The size of the Committee shall be determined by the board of directors of the Company (the “Board”), but must always have at least three members.

Qualifications:

- 1) The Chairman of the Committee and at least a majority of Committee members shall meet the independence requirements under Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited.
- 2) No Committee member shall have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the three years prior to the proposed appointment of such member to the Committee.
- 3) Each Committee member shall be able to read and understand fundamental financial statements, including a balance sheet, an income statement and a cash flow statement. Additionally, at least one member of the Committee with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.
- 4) Each Committee member shall receive as compensation from the Company only those forms of compensation as are not prohibited by the Listing Rules. Permitted compensation includes

- (A) director's fees (which includes all forms of compensation paid to directors of the Company for service as a director or member of a committee of the Board); and/or
- (B) fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company, provided that such compensation is not contingent in any way on continued service.

Additional director's fees may be paid to members of the Committee to compensate them for the significant time and effort they expend in performing their duties as members of the Committee.

Appointment and Removal: The Board will appoint the members and the Chairman of the Committee. Committee members shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

Duties and Responsibilities

The Committee is responsible for overseeing the accounting and financial reporting processes and the audits of financial statements of the Company on behalf of the Board. Management is responsible for the preparation, presentation, and integrity of the financial statements and for the appropriateness of the accounting and reporting policies that are used by the Company. The external auditor is responsible for auditing the Company's annual financial statements and for reviewing the Company's interim financial statements.

The Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the external auditor (including resolution of disagreements between management and the external auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.

In performing its responsibilities, the Committee shall:

- 1) Retain the External Auditor: The Committee shall
 - (A) recommend to the Board on the appointment, re-appointment and removal of the external auditor;
 - (B) approve the remuneration and terms of engagement of the external auditor; and
 - (C) any questions of its resignation or dismissal.

The Committee may delegate the authority to grant any pre-approvals of non-audit engagements required by such sections to one or more members of the Committee as it designates, subject to the delegated member or members reporting any such pre-approvals to the Committee at its next scheduled meeting.

- 2) Review and Discuss the Independence of the External Auditor: In connection with the retention of the external auditor, the Committee will, review and discuss the information provided by management and the external auditor relating to the independence of the audit firm, including, among other things, information related to the non-audit services provided and expected to be provided by the external auditor. The Committee is responsible for
 - (A) reviewing and monitoring 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 auditor the nature and scope of the audit and reporting obligations before the audit commences;
 - (B) developing and implementing policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally; and
 - (C) taking or recommending that the Board take, appropriate action to oversee the independence of the external auditor.

In connection with the Committee's evaluation of the external auditor's independence, the Committee shall also take such steps as may be required by law with respect to the identification and regular rotation of the audit partners serving on the Company's audit engagement team.

- 3) Review and Discuss the Audit Plan: The Committee is to review and discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences.
- 4) Review and Discuss Conduct of the Audit: The Committee is to review and discuss with the external auditor the matters required to be discussed relating

to the conduct of the audit, as well as any audit problems or difficulties and management's response, including

- (A) any restriction on audit scope or on access to requested information;
- (B) any disagreements with management; and
- (C) significant issues discussed with the external auditor's national office.

The Committee is to decide all unresolved disagreements between management and the external auditor regarding financial reporting.

- 5) Review and Discuss Financial Statements and Disclosures: The Committee is to review and discuss with appropriate officers of the Company and the external auditor the annual audited financial statements of the Company, including
 - (A) the Company's disclosures under "Management's Discussion and Analysis" (as defined under the Listing Rules); and
 - (B) the disclosures regarding internal controls and other matters required by the Listing Rules.
- 6) Review and Discuss Internal Audit Plans: The Committee is to review and discuss with the internal auditors or any person responsible for internal audit function ("IA Specialist") the plans for and the scope of their ongoing audit activities.
- 7) Review and Discuss Internal Audit Reports: The Committee is to review and discuss with the IA Specialist the quarterly report of the audit activities, examinations and results thereof of the IA Specialist.
- 8) Review and Discuss the Systems of Financial Reporting, Risk Management and Internal Controls: The Committee is to review and discuss with the external auditor, the IA Specialist, the General Counsel and, if and to the extent deemed appropriate by the Chairman of the Committee, members of their respective staff members, the adequacy of the internal accounting controls; the financial, auditing and accounting organisations and personnel, and the policies and compliance procedures with respect to business practices. Such discussions shall include
 - (A) to review the Company's financial controls and risk management and internal control systems with particular regard to their effectiveness;

- (B) to discuss the risk management and internal control systems with 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 Company's accounting and financial reporting functions;
 - (C) 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;
 - (D) to ensure co-ordination between the IA Specialist and external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer, and to review and monitor its effectiveness;
 - (E) to review the Group's financial and accounting policies and practices;
 - (F) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
 - (G) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
 - (H) to report to the Board on the matters in the Code Provisions in the Listing Rules; and
 - (I) to consider other topics, as defined by the Board.
- 9) Review and Discuss the Recommendations of External Auditor: The Committee is to review and discuss with the IA Specialist recommendations made by the external auditor and the IA Specialist, as well as such other matters, if any, as such persons or other officers of the Company may desire to bring to the attention of the Committee.
- 10) Review and Discuss the Financial Information: The Committee is to review and discuss with the external auditor
- (A) the report of their annual audit, or proposed report of their annual audit;
 - (B) the accompanying management letter, if any;

- (C) the reports of their reviews of the interim financial statements conducted in accordance all applicable rules and standards; and
- (D) the reports of the results of such other examinations outside of the course of the external auditor's normal audit procedures that the external auditor may from time to time undertake.

The foregoing discussions shall include the reports required by the Listing Rules and shall include a review of

- (A) major issues regarding (i) accounting principles and financial statement presentation, including any significant changes in the selection or application of accounting principles; and (ii) the adequacy of the internal controls and any special audit steps adopted in light of material control deficiencies;
- (B) significant adjustments resulting from audit and major judgmental areas made in connection with the preparation of the financial statements;
- (C) the going concern assumptions and any qualifications;
- (D) compliance with applicable accounting standards; and
- (E) compliance with the Listing Rules and legal requirements in relation to financial reporting.

Regarding the abovementioned:

- (i) members of the Committee should liaise with the Board and the management and the Committee must meet, at least twice 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 the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, or for compliance function or auditors (internal or external).

- 11) Obtain Reports Regarding Conformity with Legal Requirements and the Company's Code of Conduct: The Committee is to periodically obtain reports from management, the IA Specialist and the external auditor that the Company and its subsidiaries are in conformity with applicable legal requirements and the Company's Code of Business Conduct and Ethics. The Committee is to

review and discuss reports and disclosures of insider and affiliated party transactions. The Committee should advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Business Conduct and Ethics.

- 12) Establish Procedures for Complaints Regarding Financial Statements or Accounting Policies: The Committee is to establish procedures for
 - (A) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - (B) the confidential, anonymous submission by employees of the Company of concerns regarding financial reporting, internal control or other matters as required by the Listing Rules.
- 13) Discuss with General Counsel Matters Regarding Financial Statements or Compliance Policies: The Committee should discuss with the Company's General Counsel of legal matters that may have a material impact on the financial statements or the compliance policies.
- 14) Review and Discuss Other Matters: The Committee should review and discuss such other matters that relate to the accounting, auditing and financial reporting practices and procedures of the Company as the Committee may, in its own discretion, deem desirable in connection with the review functions described above.
- 15) Make Board Reports: The Committee should report its activities regularly to the Board in such manner and at such times as the Committee and the Board deem appropriate, but in no event less than once a year. Such report should include a review of any issues that arise with respect to the quality or integrity of the financial statements, the compliance with legal or regulatory requirements, the performance and independence of the external auditor or the performance of the IA Specialist.
- 16) Maintain Flexibility: The Committee, in carrying out its responsibilities, policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

Meetings of the Committee

The Committee shall meet in person or telephonically at least twice a year, or more frequently as it may determine necessary, to comply with its responsibilities as set forth herein. The Chairman of the Committee shall, in consultation with the other members of the Committee, the external auditor and the appropriate officers of the Company, be responsible for calling meetings of the Committee, establishing agenda therefor and supervising the conduct thereof. At least half of the number of Committee members will constitute a quorum for conducting business at a meeting of the Committee. The act of a majority of Committee members present at a Committee meeting at which a quorum is in attendance will be the act of the Committee, unless a greater number is required by law or the Company's Articles of Association.

The Committee may request any officer or employee of the Company or the outside legal counsel or external auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee may meet with the management, the IA Specialist and the external auditor periodically in separate private sessions to discuss any matter that the Committee, management, the external auditor or such other persons believe should be discussed privately.

Minutes of each meeting of the Committee shall be prepared and kept by the secretary of the Committee.

Resources and Authority of the Committee

The Committee shall have the resources and authority appropriate to discharge its responsibilities as required by law, including the authority to engage external counsel and other advisors as the Committee deems necessary to carry out its duties. The Committee may also, to the extent it deems necessary or appropriate, meet with the investment bankers or financial analysts who follow the Company.

The Company will provide for appropriate funding, as determined by the Committee, for payment of (a) compensation to the external auditor engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company; (b) compensation to external counsel or any other advisors employed by the Committee; and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

Annual Committee Report

The Committee, with the assistance of management, the external auditor and outside legal counsel, shall, if requested by the Board, prepare a report for inclusion in the annual report.

Annual Review of Charter

The Committee will conduct and review with the Board annually an evaluation of the adequacy of this Charter and recommend any changes to the Board. The Committee may conduct this charter evaluation in such manner as the Committee, in its business judgment, deems appropriate.

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